

# FINANCIAL TIMES

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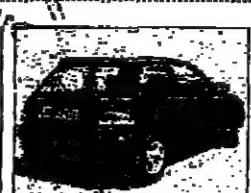
TUESDAY MAY 19, 1998



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## WORLD NEWS

### Indonesia's army chief dismisses parliamentary call for Suharto to quit

Parliamentary leaders in Indonesia demanded the resignation of President Suharto. However, General Wiranto, Indonesia's top military officer, dismissed the demand, raising the threat of confrontation between the armed forces and civilians. Page 8

**UN moves on war crimes**  
The United Nations is preparing to meet a world demand for human rights justice, with plans on the table for a permanent international criminal tribunal and discussions under way on a court to try genocide suspects from Cambodia. Page 10

**Middle East peace still deadlocked**  
The US failed to break the deadlock in the Middle East peace process when US secretary of state Madeleine Albright met Palestinian Authority president Yasser Arafat. Page 10

**Food labelling row looms**  
Brussels is heading for a clash with European Union members over labelling of genetically modified soya and maize. Page 11

**Milosevic triggers crisis**  
Yugoslav president Slobodan Milosevic orchestrated the dismissal of his prime minister and government, triggering a constitutional crisis that could lead to the federation's break-up. Page 3

**Cook in Ankara talks**  
UK foreign secretary Robin Cook flies to Ankara today in a bid to end months of strain in Turkey's relations with Europe. Page 2

**Paris mayor's wife questioned**  
RPR, the Gaullist party founded as a vehicle for Jacques Chirac's presidential ambitions, suffered embarrassment when police questioned the wife of Paris mayor Jean Tiber, an ally of Mr Chirac, as part of a corruption probe. Page 2

**Strike threat at Air France**  
French pilots' unions announced plans for a further strike at Air France next week in protest at a proposed pay cut. Page 2

**Kohl rouses party**  
German chancellor Helmut Kohl won the enthusiastic backing of his Christian Democratic Union after pledging to reverse the party's slump in popularity and lead it to victory in the country's general election. Page 2

**EU progress accelerates**  
European Union members have stepped up the rate at which they adopt single market laws, the Commission says. Page 2

**Greek wages deal**  
Greece's Federation of Industry is to sign a pay deal with private sector unions which will keep alive the Socialist government's hopes of achieving year-end inflation of 2.9 per cent. Page 2

**Egyptian police kill five militants**  
Egyptian security forces shot dead four Islamic militants in a town 160 miles south of Cairo, police said. A civilian died in the crossfire.

**Cambodia poll threat**  
Cambodia's four main opposition parties threatened to pull out of the country's election unless conditions for a free and fair poll were put in place. Page 6

**Retirement a mystery**  
Most Americans do not know that the retirement age for those now under 30 has been raised to 67, a Gallup survey shows. Page 6

## BUSINESS NEWS

### Suez Lyonnaise and Fortis launch Belgian takeover bids

Two takeover bids totalling almost \$16bn were launched in Belgium yesterday. Fortis, the Belgio-Dutch insurance and banking group, made a BFR400bn (\$11.2bn) offer for Générale de Banque. Simultaneously, France's Suez Lyonnaise des Eaux unveiled a BFR178bn offer for the 38.5 per cent it does not already own of Société Générale de Belgique. Page 21; Observer, Page 19

**Worries about Russia's financial position**  
and fears of a rouble devaluation forced a fourth day of heavy selling on the Moscow stock market. The benchmark RTS share index closed at 227.61, down 11.8 per cent. Page 21; Last, Page 20

**Sesnam is considering proposals**  
to float its Tropicana fruit juice business, and to sell its 11m shares in Time Warner, to finance its planned \$10bn acquisition of Dutch music and film company PolyGram. Page 21

**Banco Central Hispana has stolen a march**  
on the Latin American franchise of its larger Spanish rivals Banco Bilbao Vizcaya and Banco Santander by developing a private banking strategy to service clients out of New York. Page 22

**Artemis, the holding company of businessman François Pinault,**  
launched a full takeover bid for auctioneer Christie's International, having just bought 29 per cent. Page 21; Comment, Page 27

**The Anglo-Swiss financial services conglomerate created by the**  
planned \$37bn merger of Zurich Group with the insurance and asset management arm of BAT Industries will incur exceptional charges of up to \$1.4bn. Page 22

**Olympic Airways faces a cash crisis**  
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**SBC, the Mexican telecoms company,**  
has signed a letter of intent with Lucent Technologies to set up a national telephone wireless network for \$700m. Page 23

**Lower Saxony will retain a quarter stake**  
in Salzgitter, Germany's second biggest steel producer it bought this year from industrial conglomerate Preussag. Page 22

**Clariant, the Swiss chemicals company,**  
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**The price of palladium - vital in making mobile phones, laptop computers and vehicle catalysts -**  
has overtaken platinum. Page 21; Commodities, Page 34

**Portugal raised E131.4bn (\$217.3m)**  
from a global offering of 25 per cent of cement producer Cimpor. Page 22

**AT&T announced a marketing pact**  
with Internet service provider Yahoo! in an attempt to expand sales online. Page 23

**Because of production difficulties,**  
the Managed Funds in today's Financial Times contain last Friday's data.

## World Equity Markets

The latest trends and data from more than 50 national markets at a glance. Page 43

## US accuses Microsoft of being an illegal monopoly

Lawsuit alleges antitrust violations in pattern of predatory business practices

By Richard Wolfe in Washington

Microsoft, the world's largest software company, was yesterday sued by the US government for being an illegal monopoly in its bitter struggle with Netscape Communications, its internet software rival.

Backed by 20 states the government accused Microsoft of a wide range of antitrust violations in a pattern of predatory business practices over several years.

It asked a federal court in Washington for an immediate injunction to change Microsoft contracts with computer makers and internet service companies.

Drawing on evidence from internal Microsoft memos, the US government and 20 states sued the company for planning "an illegal conspiracy" with Netscape to divide up the market in internet browsers, which navigate the world wide web.

When Netscape refused to go along with Microsoft's plan in 1995, the company used its monopoly in Windows operating software to "cut off Netscape's air supply" by blocking its rival's access to the marketplace, the government alleges.

Joel Klein, head of the antitrust division at the US Justice Department, said: "Nothing we are doing here will or should prevent Microsoft from innovating

or competing on the merits. What cannot be tolerated - and what the antitrust laws forbid - is the barrage of illegal, anti-competitive practices that Microsoft uses to destroy its rivals and to avoid competition on the merits."

At its heart, the lawsuit accuses Microsoft of abusing its monopoly in operating software to force other products on to consumers and computer makers.

The government argues Microsoft sought to crush Netscape when it realised that internet software could eventually undermine and replace its Windows operating system.

In a statement, Microsoft said the antitrust suits were "without merit" and vowed to fight them. Perhaps the most damaging evidence unearthed by the Justice Department is a series of internal memos and emails charting Microsoft's strategy to squeeze out Netscape.

Bill Gates, chairman and chief executive of Microsoft, is quoted in an internal email as offering to include Netscape's products alongside its own.

The injunction, if granted, would also allow PC manufacturers the freedom to install any software they choose. Microsoft is alleged to have forced its browser on all new computers.

Janet Reno, US attorney-general, said: "Microsoft has an



Janet Reno wants to "keep field open to the next Microsoft" Picture: Reuters

excellent record of innovation. But we want to make sure that the field is open to the next Microsoft, the next great innovator who can help improve our lives and our economy - if they are given the opportunity."

**Book thrown at Microsoft, Page 6**  
**Government vs Big Business and Editorial Comment, Page 19**

## Tax move to hit Europe bank accounts

By Simon Davies in London

The European Commission is to publish a directive tomorrow that aims to ensure that some tax is paid on all income from bank accounts and securities held within the European Union by EU residents.

Investment bankers claim the proposal could seriously damage European capital markets and in particular the eurobond market.

Previous proposals to introduce a 15 per cent minimum savings tax were shot down in 1995 after opposition from the UK and Luxembourg. The new draft recommends a minimum 20 per cent withholding tax. This is collected on behalf of national governments by financial institutions holding the savings or securities. It is held by the governments

unless investors prove they have already paid tax on the savings in another jurisdiction.

However, the draft introduces an alternative. Countries can instead provide information to other European tax authorities about interest payments to EU citizens resident in their jurisdiction. Banks handling the interest payments would supply the information.

A UK Treasury spokesman said it would still not agree to any compulsory withholding tax, but has said it would approve them if they were part of a wider harmonisation of corporate taxation in the EU.

Cliff Dammers, secretary-general of the International Primary Market Association, which represents international securities underwriters and distributors, described the proposed measure as "outrageous". "It has

enormous implications for the markets and should be subject to broad consultation, instead of just being rushed through. In the worst case, this could drive the eurobond market offshore."

The Commission is anxious to put the directive to EU finance ministers as soon as possible. The European Parliament must then be consulted and the measure needs unanimous support from finance ministers. Luxembourg has previously threatened to vote against the proposals, but has said it would approve them if they were part of a wider harmonisation of corporate taxation in the EU.

A Commission spokeswoman said yesterday: "We do not expect

any opposition of principle because this has already been agreed on December 1 [at a previous finance ministers' meeting], but we will have discussions on the detail."

The moves are part of a push to tackle widespread tax evasion, which has been helped by fiercely protected secrecy laws in some European banking jurisdictions.

The document argues that by focusing on EU-based individuals, it will limit the effects on eurobonds. But individual investors still account for 20 per cent of bond holdings, IFMA said, and most of these are European.

**Lex, Page 20**

## Brussels and US end sanctions dispute

By Guy De Jouvenot in London and Gerard Baker in Geneva

US and European Union leaders yesterday agreed a settlement of their dispute over US sanctions laws against investors in Cuba, Iran and Libya. The EU said the deal, as well as lifting threatened sanctions against Total, the French oil group, immediately cleared the way for other European energy companies to invest in Iran and Libya.

The agreement was endorsed by US president Bill Clinton, Tony Blair, the British prime minister, and Jacques Santer, European Commission president, at a summit in London. Mr Blair said the deal was "at least a basis for a lasting solution" to the two-year-old sanctions dispute and paved the way for closer US-EU trade and economic co-operation.

The intricate deal depends on Mr Clinton persuading the US Congress to amend sanctions legislation. He claimed yesterday that the deal underpinned Congress' objectives when it passed the sanctions legislation against Cuba, Iran and Libya.

Last week a number of senators, most notably Al D'Amato, the principal sponsor of the legislation, urged Mr Clinton not to grant a waiver of sanctions against the companies in the Iranian pipeline project. A senior administration official said yesterday Mr D'Amato and other opponents welcomed the news that European countries would take a tougher line with exports to Iran and Libya, but still felt the agreement did not go far enough. Officials also acknowledged that US companies would lose out.

Total had been investigated by the US state department since last autumn because of its involvement in a \$2bn gas project in Iran.

Sir Leon Brittan, EU trade commissioner, said companies such as British Petroleum and Shell, which have been considering energy projects in Iran, could proceed without fear of being penalised. He called the deal "a highly satisfactory outcome".

Mr Clinton has undertaken to ask Congress to amend title IV of the Helms-Burton act, which authorises the US to deny entry visas to directors and shareholders of companies investing in assets in Cuba illegally expropriated by the Castro government.

The EU has accepted some US demands for tighter international discipline on the use of illegally expropriated assets.

**Companies welcome deal, Page 11**  
**Editorial Comment, Page 19**

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## WORLD MARKETS

STOCK MARKET INDICES	
New York: S&P 500	9052.18 (+3.84)
Dow Jones Ind. Av.	11534.19 (+13.58)
NASDAQ Composite	2454.31 (+4.52)
Europe and Far East	534.95 (+0.29)
CAC40	2454.31 (+4.52)
UK: FTSE 100	2562.2 (-0.1)
Nikkei 225	15284.47 (+141.61)
COMMODITIES	
US: Lumber futures	109.2281 (+0.02)
Wheat futures	102.48 (+0.02)
Gold futures	107.05 (+0.02)
Oil futures	111.50 (+0.02)
US: Treasury bonds	114.87 (+0.02)

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CURRENCY EXCHANGE RATES	
US Dollar	1.6715
Japanese Yen	1.7892
Swiss Franc	1.4880
French Franc	135.575
GOLD	
New York: COMEX	259.60 (201.2)
London: Gold	259.05 (200.45)
EXCHANGE RATES	
New York: London	1.6715
London: New York	1.7892
Swiss: London	1.4880
London: Swiss	135.575
French: London	1.6715
London: French	1.7892
Japanese: London	1.4880
London: Japanese	135.575

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## EUROPE

# Milosevic risks final Yugoslav break-up

By Guy Ottens in Belgrade

Slobodan Milosevic, Yugoslavia's president, orchestrated the dismissal of his prime minister and government yesterday, triggering a constitutional crisis that could lead to the final break-up of the federation.

Radoje Konic, a native of Montenegro, which with Serbia is one of Yugoslavia's two constituent republics, lost a vote of confidence as prime minister in the upper house of the Yugoslav parliament.

He had fallen out of favour with Mr Milosevic by opposing his plan to impose a state of emergency in Montenegro last January as a way of blocking the inauguration of the tiny republic's new president, Milo Djukanovic, a Milosevic critic.

Mr Milosevic has refused to recognise Mr Djukanovic's election victory or even meet

him. Mr Djukanovic, whose reformist policies have won him promises of financial aid from western governments, said in an interview published yesterday that Mr Milosevic would become "Yugoslavia's grave-digger".

Mr Djukanovic has repeatedly threatened to lead Montenegro to independence if Mr Milosevic persists with his illiberal, nationalist policies, which have kept Yugoslavia in the bad books of western countries.

Montenegro was alone among the six former Yugoslav republics in remaining loyal to Serbia and staying in the federation during its violent disintegration in the early 1990s. Although its population of some 650,000 is less than 7 per cent of Serbia's, Montenegro commands disproportionate powers in the federal Yugoslav assembly.

Mr Konic was removed

with the help of six deputies loyal to Momir Bulatovic, the former Montenegrin president defeated by Mr Djukanovic in disputed elections last October.

Montenegro is to hold crucial parliamentary elections on May 31 that will determine the republic's allocation of half of the deputies to the upper house of the federal Yugoslav assembly. Analysts predict Mr Djukanovic's ruling party will narrowly defeat the opposition led by Mr Bulatovic.

Diplomats said Mr Konic's dismissal would give Mr Milosevic greater leverage over Montenegro.

Mr Milosevic received a further boost yesterday with the news that the US and its European allies had decided not to proceed with a potentially crippling investment ban on Serbia.

The measure was announced on May 9 to push



Serbian police remove Serb students demonstrating against a government decision to allow ethnic Albanians to use the Pristina university engineering faculty in Kosovo

Mr Milosevic into seeking a political settlement to the growing conflict with the pro-independence ethnic Albanian majority in Serbia's province of Kosovo.

Mr Milosevic met Ibrahim Rugova, political leader of

the Kosovo Albanians, for the first time last Friday. Negotiating teams from the two sides are to meet on May 22.

In another bid by Mr Milosevic to shore up his waning powers, the federal com-

munications ministry refused to grant broadcasting licences to 21 independent radio stations and 17 local television stations. One radio station that did get a licence is to be run by Mr Milosevic's son, Marko.

## GREECE OLYMPIC FACES RESTRUCTURING

## Airline hit by move on loan guarantees

By Karin Hope in Athens

Olympic Airways, the struggling Greek state carrier, faces a cash crisis after the Socialist government's decision to end state guarantees on lending to loss-making public sector enterprises.

The airline has become a test case in the government's effort to accelerate structural reforms so that Greece can qualify for membership of the European single currency by 2001. The economy ministry says that if the current restructuring plan fails, Olympic will have to shut down.

Olympic last week obtained its first loan on commercial terms, raising Dr10m (\$13m) from two state-controlled banks to pay salaries for its 6,400 staff. Revenues declined sharply in April because of strikes staged by pilots and cabin crews in protest at the cost-cutting plan.

Company officials said \$3m more was urgently needed to meet payments due on six leased Boeing 737 aircraft, which are to handle additional flights during the tourist season.

Olympic has used up much of its spare cash on paying benefits to more than 500 staff who chose to retire rather than accept a three-year pay freeze.

"Olympic is being asked for the first time to pay market rates on its borrowing

requirements and to put up some of its assets as collateral," said an official at National Bank of Greece, the state-controlled bank which handles the bulk of lending to the public sector.

National Bank has started negotiations on a Dr20bn medium-term loan for Olympic in which international banks would participate. It would cover early payments on new aircraft which are due to be delivered later this year as well as working capital requirements.

The airline is relying on increased cash flow during the summer to keep flying. Revenues from its monopoly of ground handling for charter flights to the Aegean islands are set to rise, but bookings for Olympic flights have sunk to an all-time low, according to travel industry officials.

Olympic's survival will depend on how quickly Greece's transport ministry can revive a stalled agreement with the European Commission on providing a Dr35bn capital injection and state guarantees to finance new aircraft purchases.

The Commission agreed a rescue plan for Olympic in 1994 but successive Greek transport ministers failed to ensure it was carried out. The proposed capital increase, as well as \$375m in state guarantees for fleet renewal, have remained frozen for more than two years.

## Holding the line against national interests

By Wolfgang Miessen, Economics Correspondent

It is now only a matter of days - maybe two weeks - until the formal launch of the European Central Bank.

The six nominees to the ECB's executive board seem to agree on the broad outlines of policy. But one of the unresolved questions about the new arrangements is how they will work together with the 11 national central bank governors.

Together, they constitute

the 17-strong governing council, the ECB's primary decision-making body. This governing council is responsible for setting interest rates in the Euro area.

One of the potential weaknesses of the new arrangements is the possibility of national coalition building. Like-minded central bank governors might collude to push their national interests to the detriment of the group as a whole.

Under the Maastricht treaty, the ECB must set pol-

icy with a view to the euro area as a whole and without prejudice to countries or regions. The monetary or inflation targets should be those of the zone as a whole.

The national governors' majority could make coalition tactics - feasible, although there is no indication that this would happen, especially as economic conditions are fairly convergent. But the system does not appear to have sufficient safeguards against such practices.



## ECB watch

At the Bundesbank, eight insiders are confronted with nine outsiders. At the European System of Central Banks 11 outsiders stand against only six insiders.

Furthermore, national central banks are backed up by large administrative machines. The Bank of France and the Bundesbank

will continue to employ over 10,000 staff each, compared to 500 at the ECB.

Their economics departments are a formidable source of data and economic analysis. National statistics are of higher quality than European statistics, although this may change over time.

Hans Tietmeyer, president of the Bundesbank, last week tried to reassure observers that the Bundesbank's council already took economic conditions in other

Emu member states on board when formulating policy.

Unresolved is whether national governors will take the pan-Emu view when they face genuine policy dilemmas.

● The ECB's internet address is: <http://www.ecb.int>. The site is already operational, but currently only mirrors the site of the European Monetary Institute, the ECB's forerunner.

## Private sector pushes for right to print new euro notes

But banknote production looks like staying in the hands of state-controlled printers, writes Peter Marsh



## Living with the euro

As Europe prepares to embrace its single currency, a battle is developing over how far the private sector will be allowed to compete for orders for printing the estimated 10bn new banknotes which will be required.

Two companies, De La Rue of Britain and Giesecke & Devrient of Germany, are lobbying to have a bigger share of the estimated \$600m business, the biggest banknote printing project ever.

One of the ironies of the euro scheme, which is supposed to promote a freer and more transparent market around the continent, is that the production of the notes themselves looks like being settled behind closed doors and without a public tender. "Banknote printing is one of the last protected markets in Europe," said Tim Rothwell, a printing analyst at Greg Middleton, a London stockbroker. "It seems unlikely that the bureaucrats at the European Central Bank will be motivated by the best interests of taxpayers."

The ECB, which is taking over the reins of its predecessor, the European Monetary Institute (EMI), will decide on the final designs for the euro banknotes, and the printing arrangements for them.

But while the EMI says that these matters are still open for discussion, most observers expect that the bank will give virtually all the orders for printing the notes to the European Union's state-controlled printing works.

The EU has 15 such organisations, answerable to the national central banks which, once economic and monetary union starts on January 1, will become part of the European System of Central Banks. They print 80 per cent of the banknotes currently produced by the EU.

"Can you imagine the Banque de France failing to organise things so that its own printing works misses out on the [euro] contracts?" asks one European banknote industry specialist.

It is expected that the euro orders will be placed from early next year. A large stockpile has to be ready in 2002, when they are due to replace existing banknotes.

The state dominance of banknote printing in Europe has for years liked De La Rue and G&D, which are by far the two biggest private sector players in banknote printing worldwide.

Between them, they account for about three-quarters of the world's \$400m a year "open" banknote printing market, which is about 85 per cent of the total and excludes those notes made by state-owned organisations.

Both companies have been putting their case to the EMI for a greater share of the euro business, arguing that private sector efficiencies could significantly reduce the costs of printing. They argue that their international experience since the 1860s - which is when both companies started banknote printing - is enough to cope with security issues important in this type of work.

Manfred Beck, head of banknote printing at G&D, says that the flexible shift working at G&D's German plants in Munich and Leipzig

could lead to worthwhile savings. John Burbridge-King, De La Rue's commercial director, says that putting at least some of the euro contracts out to public tender would be "reasonable and practicable".

De La Rue argues it has plenty of spare capacity at its five print works around the world, in Britain, Malta, Singapore, Kenya and Sri Lanka.

One London-based analyst estimates that private sector flexibility expertise could easily knock 10 per cent off the printing costs for the euro, with no loss in quality.

A European central banker said he had some sympathy with the views of the private sector organisations on the grounds that some state-owned printing works were not particularly efficient.

All the EU countries - with the exception of Portugal and Luxembourg, which both use De La Rue to make their notes - have their own state-controlled printing works. Germany has gone further than most EU nations in involving the private sector. Printing the country's banknotes is split between G&D and the Bundesdruckerei, a public company in Berlin.

G&D and De La Rue are, however, hoping for changes in the next few years. Governments may well reconsider the logic of keeping open all the state-controlled print plants once Emu is up and running.

The two companies are thought also to be quietly hoping that the effort to bring out the 10bn euro notes in time for 2002 will run into technical problems - in which case they might be called in for a bigger share of the work.

## New offer in pay-TV row

By Ralph Atkins in Bonn and Samar Iskander in Brussels

Kirch and Bertelsmann, the German media companies, have offered to let the country's regional cable companies compete in the distribution of their proposed digital pay-TV venture as part of efforts to avoid the European Commission blocking the project.

The latest concession, proposed to Brussels last week, appears to have raised the chances of the project winning approval. A ruling by the Commission is due by June 3.

Brussels described the revised plan as "a step

in the right direction".

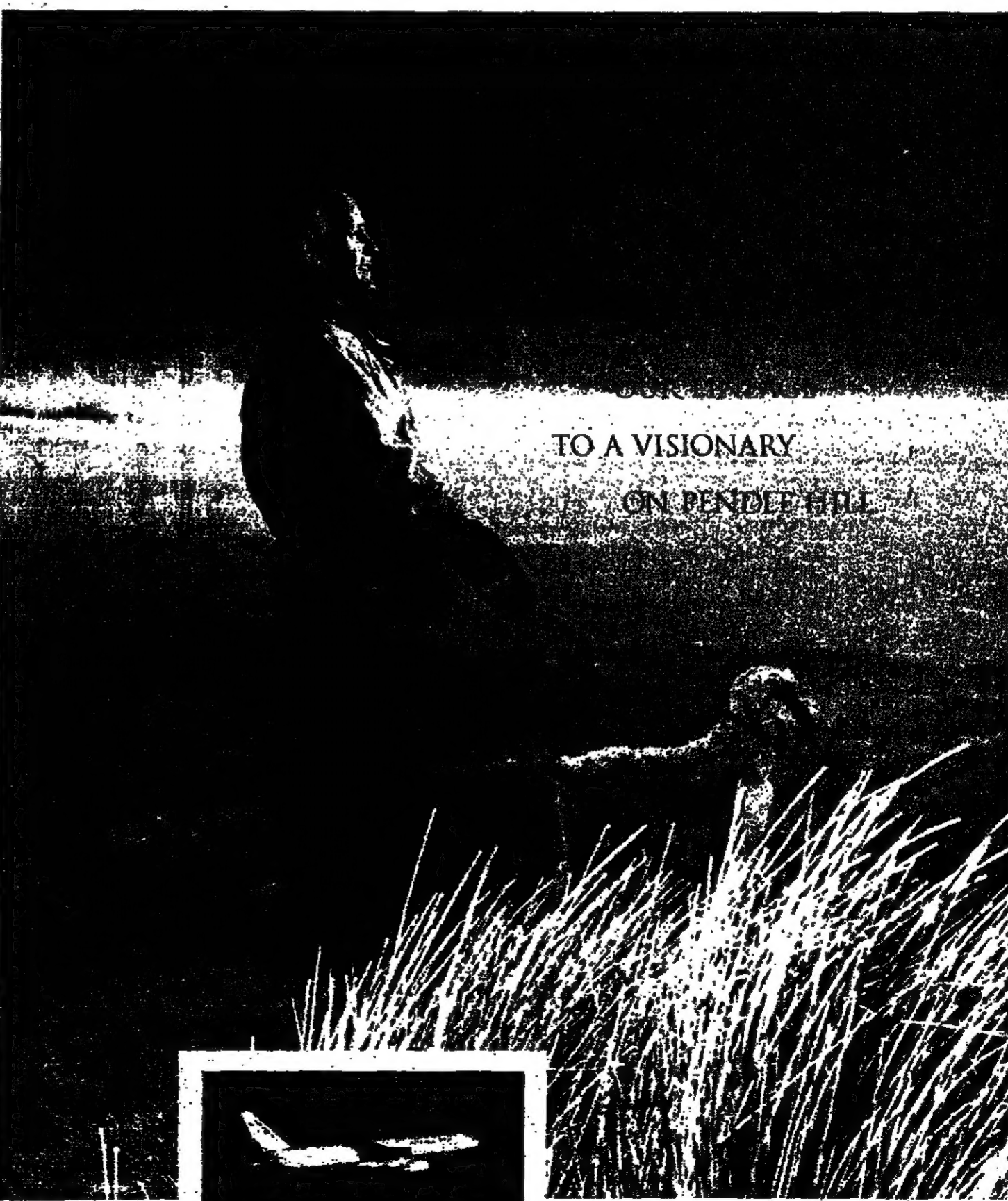
The project involves rolling out DF-1, a loss-making digital pay-TV company owned by Kirch, into Premiere, a successful analogue subscription service owned by Kirch and GLT-UF, the Luxembourg-based broadcasting group in which Bertelsmann has a 40 per cent stake.

The revised plans seek to overcome worries by Karel Van Miert, competition commissioner, about the new venture creating a dominant group in the German pay-TV market. Regional cable operators could offer Premiere alongside their own services or on particular terms to their own customers. But

Premiere would also be marketed directly.

The companies are also believed to be ready to sell a stake in Beta Research, the company that controls the technology for decoder boxes necessary to view digital programmes.

Meanwhile, Ocho, one of Germany's new telecoms companies which also has 1.6m cable customers, has submitted proposals to Brussels under which a consortium would link up with Deutsche Telekom - the partly-nationalised telecoms giant also involved in the project - in organising the marketing of the services via a trust company.



From Pendle Hill, Gerry Fitzpatrick can look down on the Rolls-Royce plant in the Pennines. Here, Gerry and his colleagues revolutionised jet engine technology by making engine fan blades stronger yet lighter. This technology was first launched on Boeing planes and when you fly a Boeing 777 today, you can thank Gerry's team for the smooth but powerful take-off. Boeing has

been working with European experts like Gerry and their companies for over 30 years. For one simple reason: we want to work with people who are best at what they do. Of course, building an airplane is a massive enterprise. It takes teamwork on a grand scale. Many individuals, many companies, many countries. But working together, we can do almost anything.

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## EUROPE

# Russian reformer 'witch-hunt' victim

By Chrystia Freedland in Moscow

Alfred Kokh, a former deputy prime minister who has been caught up in one of Russia's highest-level corruption cases since the collapse of communism, says he is the target of a politically motivated witch-hunt.

"This is no less dangerous than the events of the Brezhnev era," Mr Kokh said in a telephone interview from New York. "It is a nightmare."

Mr Kokh, whom Moscow prosecutors charged this month with embezzling state property, said communist-dominated law-enforcement agencies were using their power to mount a covert attack against Russia's reformers.

"The procuracy is taking over the functions of government. They are entering the political process," he said. "The procuracy and its cadres have not changed since the communist era. The prosecutors simply hate us. They are communists."

Moscow prosecutors allege

that Mr Kokh fraudulently distributed 21 apartments to government officials, including himself. The charges carry a maximum penalty of 10 years' prison.

Mr Kokh, the former head of the state privatisation agency, acknowledged that government money had been used to buy 21 Moscow apartments for himself and fellow civil servants.

However, he asserted that the deal had been authorised by Anatoly Chubais, then a senior government official, and Victor Chernomyrdin, then the prime minister.

Mr Kokh said the apartments, including his own three-bedroom apartment in the heart of Moscow, were a legitimate remuneration for reformers who worked hard on low government salaries. He believed that, if he returned to Russia, he would risk being arrested. Nonetheless, he said that this week he planned to come back to Moscow to launch a controversial book.

Last year Mr Kokh was

paid \$100,000 for the book,

which is a history of Russia's privatisation drive. The Swiss company which purchased the book rights had connections with Oleximbank, a powerful Russian financial group which rivals alleged Mr Kokh had favoured during the privatisation process.

Mr Kokh said that at the time he sold the book rights, he was unaware of the links between the Swiss trading company and Oleximbank. However, he insisted that, even had he known of a connection, there would have been no impropriety.

"Let us say, for the sake of argument, that Oleximbank itself paid me the honourarium directly, although that was not the case," he said. "Even if it were so, what would be the problem? ... I think a bribe is if you do something for me and I pay you money for it. That is a bribe. But those people who supposedly paid me a bribe are making a profit [on my book]. How can it be a bribe if it makes them a profit? It should be a loss."

# Slovakia's central bank eludes tighter controls

By Robert Anderson

The Slovak government admitted defeat yesterday in its attempt to exert tighter control over the central bank and shelved its proposals until after national elections in September.

Miroslav Maxon, finance minister, said parliament had withdrawn from its agenda an amendment proposed by the government to change the central bank law.

The shelving of the pro-

posals reflects strong domestic opposition both inside and outside parliament, but also the need to reassure foreign investors as Slovakia is launching the first tranche of a \$1bn eurobond.

The government's proposals would have let it appoint half the bank board members, control its budget by transferring approval from the board to parliament, and force it to increase its financing of the growing government budget deficit.

The proposals were widely viewed as an attempt to soften the central bank's tight monetary policy before the elections. The policy has made financing the government budget deficit expensive, with domestic yields of

more than 25 per cent. This has led the government to seek financing abroad.

In its defence, the bank had warned that the proposals would drive up inflation and weaken the currency. Its fears were echoed by credit rating agencies such as Moody's.

Earlier this year the government changed tack after opposition from within the coalition and began negotiating with the bank.

In an interview then, Vladimir Mezer, bank governor, said the proposal to control the bank's budget was now dead, but discussion was continuing on the other proposals. "I think there is a space to look for a compromise," he said.

# Armenian diaspora carries some clout

The former Soviet republic is now the third largest recipient of US aid per capita, writes Selina Williams in Yerevan

Armenia's highway from the borders to Nagorno-Karabakh is oddly enough just that - a smooth, unpotholed and safe road with signs marking hairpin turns, and barriers on steep curves.

The \$10m road, an anomaly in a region of battered and frequently unusable thoroughfares, was funded by contributions from the Armenian diaspora, an estimated \$m Armenian living abroad, and is testimony to their power to redraw the map with their significant financial and political support.

"Without the diaspora, no one would know or care about Nagorno-Karabakh or Armenia: it would have become just another former Soviet republic with no prospects," said Arki Vartanian, acting director of the Yerevan office of the Armenian assembly of America.

The organisation has lobbied the US Congress on Armenian issues so successfully that Armenia is the third largest recipient of US aid per capita after Israel and Bosnia.

The diaspora's impact is felt throughout Armenia, a country of some 3.5m, and is visible in every sphere, from aid to business to politics. Last year, Armenia received over \$350m from the diaspora, some \$100m more than in 1996 and \$180m more than Armenia received in US aid.

The diaspora's influence is expected to grow, thanks to Armenia's newly elected president, Robert Kocharyan, who has promised Armenians living abroad dual citizenship and a greater role than the previous president allowed.

"Armenians, whether they live here or abroad, have to feel like fully fledged citizens," Mr Kocharyan said in an interview after the elections. "It's important we create the conditions for the diaspora to participate in business here."

It is not just the large projects funded by contributions from Armenians

abroad that make a difference. About 85 per cent of foreign investors in Armenia are from the diaspora. Though many of them are small investors, buying up privatised cafes and restaurants, the effects are visible and the examples numerous.

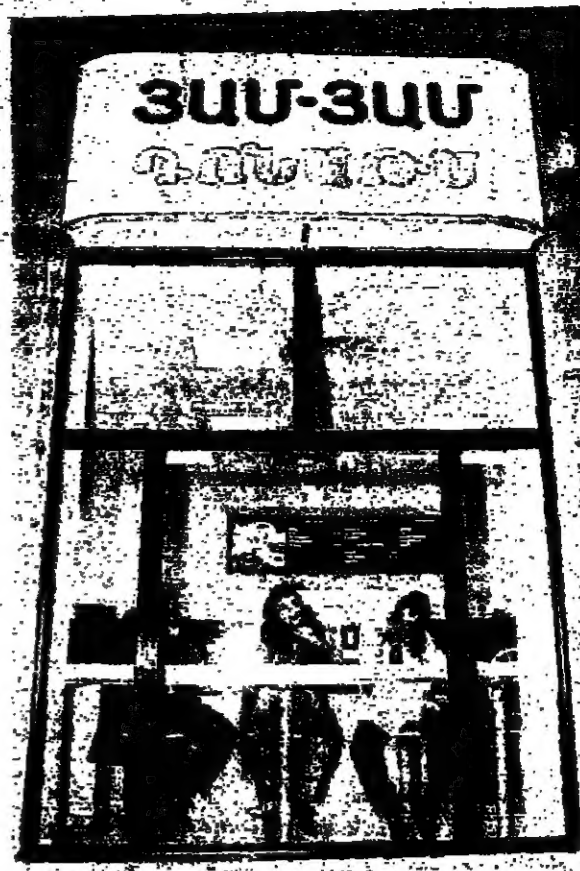
Thanks to Wathe Manugian, a British multi-millionaire who put up most of the capital to establish a branch of Midland Bank, Armenians have western standard banking facilities and will soon have an insurance company. Armenia's foreign cousins bring something more valuable than money: they introduce western know-how and business experience in a form easier to grasp because from a familiar source.

Ultimately, it is the smaller investments of time and energy that have the most direct effect. Mrs Hovhannian, a wealthy New York Armenian, opened a small workshop in Yerevan three years ago for her line of designer clothes and home furnishings which she then exports to the US. The decision to come here, Ms Hovhannian says, was only partly financial.

"It's much cheaper for me to have the work done here rather than in the US," says Ms Hovhannian, who employs five people to do the beadwork and embroidery on her designs. Her employees earn over \$400 a month, a princely sum in this country where average salaries are below \$100.

"But cheap production is not the only reason to be here," says Ms Hovhannian, who plans to sell her New York penthouse and buy a flat in Yerevan. "I feel at home and surrounded by family."

Like most Armenians from the diaspora, Ms Hovhannian's grandparents fled what was western Armenia, now eastern Turkey, after the 1915 genocide wiped out some 1m people. The trauma has left its mark on subsequent generations



The Yum Yum Donut in Yerevan, one of many such cafes started by the Armenian diaspora

and made them fiercely protective of all Armenian territory, particularly Nagorno-Karabakh, the mainly Armenian populated region within oil-rich Azerbaijan and the scene of a six-year war for control of the territory.

Diaspora money, often funnelled through the nationalist political organisation Dashnaktsutyun, provided crucial support during the war between Nagorno-Karabakh and Azerbaijan. Many Armenians living abroad flew into the region to help their compatriots.

Many of the diaspora were later scared off after the previous president, Levon Ter-Petrosian, outlawed the Dashnak party, an organisation with enormous clout abroad, three years ago, and imprisoned the leaders on charges of terrorism. Mr Kocharyan, 43, has been quick to embrace the power

# Brussels to spur movement of goods

By Sander Iskander and Michael Smith in Brussels

European Union ministers voted unanimously in favour of new single-market legislation yesterday, removing obstacles to cross-border trade among members.

The agreement, in response to incidents such as the recent strikes by French lorry drivers, gives the European Commission wider powers to demand that member states take "necessary and proportionate measures" to remove such obstacles.

The French strikes of 1996 and 1997 paralysed the French road network and caused heavy losses to road haulage companies and non-French exporters whose products were transported through France.

Under yesterday's resolution, member states undertake "to do all within their powers... to maintain the free movement of goods and to deal rapidly with actions which seriously disrupt the free movement of goods."

Requests by the Commission for action against disruption will have to be answered by the member state within five working days. Within this time limit, governments must tell the Commission - and other member states - of the measures taken to remove obstacles.

The text, however, is a toned-down version of proposals put forward last year by the Commission. Several states argued that these were incompatible with national laws protecting workers' right to strike.

The final agreement says intervention must not "restrict or adversely affect... the right or freedom to strike as recognised in the member states".

Separately, ministers made progress towards reaching agreement on a draft resolution for a European company statute that would enable multinational companies to set up a single corporate identity in the EU.

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Dr. Kenneth Courts, First Vice President, Strategist and Chief Economist of Deutsche Bank Group Asia Pacific (Tokyo)

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**A Fund Manager's Criteria for Investing in Australasian Natural Resource Companies**  
Chris Bisset, Manager, Mineral Fund Advisory Pty Ltd. (Melbourne)

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Mark Holmes, Chairman & CEO, US Global Investors, Inc. (Texas, U.S.)

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Chris J. Bradbrook, VP, Head of Research, Senior Mining Analyst, Yorkdon Securities Inc. (Toronto, Canada)

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The project has to be financed during execution by the contractor under a buy-back contract. Repayment of the total amounts involved, together with the remuneration thereon, shall be made through the revenue generated from the swap contacts concluded between NIOC and the parties concerned, within five years as of the date of the project commissioning.

NIOC shall hold a seminar in London for presentation of the project on 4 June 1998 at:-  
NIOC House  
4 Victoria Street  
London SW1H 0NE

All reservations must be made in advance by fax to:  
0171 340 5123

Tender documents will be available for purchase as from 8 - 18 June 1998.

Companies interested in this project may contact the following offices:-

NIOC House  
4 Victoria Street  
London SW1H 0NE  
Fax No. 0171 340 6123  
Tel No. 0171 340 5122

NIOC Central Building  
Taleghani Ave  
Tehran, Iran  
009821 646 7432  
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**LEGAL NOTICES**

**NOTICE TO SHAREHOLDERS OF MLH REALTY INVESTMENTS VI N.V.**  
Notice of the Annual General Meeting of Shareholders of MLH Realty Investments VI N.V. (the "Company") is hereby given. The meeting is to take place at 10:00 a.m. on May 29, 1998, at the registered office of the Company, 14, John B. Gonslow, Curacao, Netherlands Antilles. The agenda of the meeting is set forth below.

**AGENDA**  
**Annual Meeting of Shareholders of MLH REALTY INVESTMENTS VI N.V.**

- Report by Board of Supervisory Directors on the course of business of the Company and on the administration conducted during the fiscal year ended December 31, 1997.
- Discharge and subsequent re-election of Messrs. Jack A. Cuneo, Robert F. Aufenberger and James V. Caruso as members of the Board of Supervisory Directors.
- Report by the Board of Managing Directors on the course of business during the fiscal year ended December 31, 1997.
- Presentation of the Net Result of the fiscal year ended December 31, 1997.
- Confirmation and adoption of the Balance Sheet and Profit and Loss Account for the fiscal year ended December 31, 1997 and as presented in the report of the accounting firm of Ernst & Young LLP dated May 13, 1998.
- Discharge and subsequent re-election of the Board of Managing Directors.
- Selection of independent auditors.

Shareholders, by executing the subscription agreement for their shares have executed a discretionary proxy in favor of Yvonnie Corporation N.V., authorizing Yvonnie Corporation N.V. to vote the investor's shares. The proxy may be revoked either personally at the General Meeting of Shareholders or by written notice to Yvonnie Corporation N.V., 14 John B. Gonslow, Curacao, Netherlands Antilles, received prior to such meeting. Shareholders have the opportunity to instruct Yvonnie Corporation N.V. as to the voting of their shares by writing to Yvonnie Corporation N.V. at the above address.

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By: Mess/Pierson Trust (Curacao) N.V.  
Managing Director

02/11/2015



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### Telecommunications – growing across borders.

Thanks to D2, Arcor and our participations – Omnitel and Infostrada in Italy, and Cegetel in France – we're well on our way to becoming the leading private telecom provider in Europe. In digital mobile telecommunications, D2 is already market leader in Germany. Today, the Telecommunications segment generates the Group's biggest earnings contribution.

### Your advantages.

With Arcor and D2 we aim to offer all the advantages of an integrated communications company and are already realizing marketing and cost synergies for the benefit of our customers. Arcor runs a high-performance, full coverage wireline network, reaching the heart of every city

in Germany. Building on the strength of D2, Mannesmann has consistently exploited the opportunities of today's Information Age. Our aim? To further sharpen our European edge.

### Engineering – a top place in the world market.

With Mannesmann Demag, Mannesmann Dematic, Mannesmann Rexroth and Krauss-Maffei, we rank among the world's leading suppliers in mechanical engineering. Mannesmann Engineering is No.1 in hydraulics, material handling and plastics machinery. We aim to optimize our product portfolio to enhance profitability and secure future growth.

### Automotive – making cars more intelligent.

VDO and Sachs are innovative partners to the automotive industry. Sachs ranks among the leading global suppliers of chassis and powertrain components and systems. VDO is internationally recognized as an expert in the fields of integrated electronic information and control systems. Through its acquisition of Philips Car Systems, VDO with its new Car Communication division is poised to become one of the world's premier providers of integrated information, navigation and traffic telematics systems. Seizing every opportunity to boost

current value, we aim to forge ahead with the internationalization of our Automotive sector and to strengthen our systems expertise.

### Mannesmann's strengths.

- Strong commitment to value-driven management.
- Telecommunications:
  - German market leader in digital mobile telecommunications.
  - Leading private integrated provider in European telecommunications.
- Automotive and Engineering: Outstanding global position.

### Tubes & Trading – effective partnership strategy.

The Tubes & Trading sector produces and markets steel tubes for every application. In order to bolster our market position and improve our cost base, we have been incorporating all major product areas into cooperative alliances since the early nineties. The latest and most significant step in this direction is our joint venture with the French group Vallourec for seamless tubes.

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## Justice and twenty US states throw antitrust book at Microsoft

The US software giant has been told to: ☐ Stop 'exclusionary and restrictive' practices; ☐ Remove 'competitive shackles' on PC manufacturers; and ☐ Drop 'exclusionary' agreements with internet service providers and online publishers

By Louise Kehoe in Seattle

The US Justice Department and 20 US states plus the District of Columbia, charged in their antitrust lawsuits yesterday that Microsoft, the world software leader, had "engaged in anti-competitive and exclusionary practices". These were "designed to maintain its monopoly in personal computer operating systems and to extend that monopoly to internet browsing software".

The Justice Department complaint alleged that:   
● In May 1995, Microsoft executives attempted to persuade Netscape Communications, a pioneer of internet software, not to compete with Microsoft and to divide the browser market, with Microsoft making software for users of Windows and Netscape becoming the sole supplier of browsers for non-Windows computers.

Netscape refused to participate.   
● Microsoft forced personal computer manufacturers to install its browser, Internet Explorer, as a condition of obtaining licences for the Windows 95 operating system.

● Microsoft now intends to tie its Internet browser software to its new Windows 98 operating system, the successor to Windows 95.

● Microsoft is misusing its Windows monopoly by requiring PC manufacturers to agree to conform to a uniform "first screen" specified by Microsoft.

This determines the images that all PC users see when they turn on their computers. Microsoft's restrictions forbid any changes that would remove from Microsoft's browser or add to the competing software in a more prominent manner.

● Microsoft has entered into anti-competitive agreements with the largest online services, such as America Online, as well as

could be obtained in time to "give consumers greater choice in the near future". Janet Reno, the US attorney-general, said: "Consumers and computer manufacturers should have the right to choose the software they want installed on their personal computers. We are acting to preserve competition and promote innovation in the computer software industry."

Regulators did not attempt to obtain an order halting shipments of Windows 95. This, they said, would have limited consumer choice. Instead, the Justice Department demanded that:   
● Microsoft either remove its own internet browser from Windows 95, a new version of the Microsoft PC operating system. Alternatively, Microsoft could distribute with each copy of Windows 95 a copy of Netscape Communications' rival internet browser.

● Microsoft and its practice of forcing PC manufacturers to install the company's internet browser as a condition of installing Windows on their products. Users should have a choice of browsers.

● Microsoft should remove the "competitive shackles" placed on PC manufacturers that prevent them from controlling the "opening screen" that appears when a PC is turned on.

● Microsoft must drop "exclusionary" agreements with internet service providers, online services and internet publishers that force them to promote Micro-

Internet service providers. In return for promoting these services on Windows, these companies have agreed not to promote Netscape's browser software.

Although Microsoft has sought to modify some of these agreements, the modifications are themselves unlawful, because they still restrain competition, the Justice Department said. The antitrust regulators sought an immediate court order forcing Microsoft to stop these alleged "exclusionary and restrictive" practices.

Joel Klein, the head of the Justice Department antitrust division, said the injunction

by Brussels would be more cumbersome, he said.

After an investigation the Commission could issue a "negative decision" - a formal condemnation - paving the way for a fine and possibly halting distribution of the software in EU countries. This could "take years".

The Commission was relying on Microsoft having "the common sense" to apply in Europe any measures agreed with US anti-trust authorities, he added.

Under EU law the Commission can investigate the conduct of non-EU companies with large sales in EU member states.

Any potential procedure

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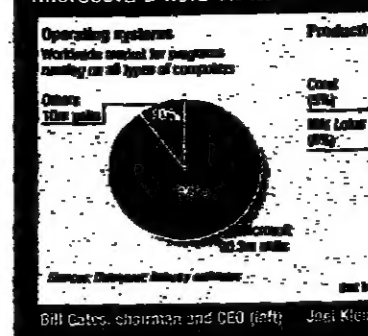
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### Microsoft: a hold on its markets



Bill Gates, chairman and CEO (left) and Jim Kim, chief of US Justice Department (right)

## Brussels gives way for 'faster' US investigation

The European Commission yesterday said it was co-operating closely with the US Justice Department's investigations of Microsoft. Samer Iskandar reports from Brussels.

However, European competition authorities do not plan to take any separate action. A Commission official said the Justice Department was in a "better position" to deal with the issue.

If Microsoft had broken any undertakings regarding browser software, he said, the US could act much faster than the Commission as this would constitute contempt of court in the US.

Any potential procedure

### Chronology of Microsoft's battles with antitrust regulators

- Jan 1985: Federal Trade Commission launches antitrust investigation of Microsoft.
- July 1985: FTC issued an order on whether to bring charges against Microsoft.
- Aug 1985: US Justice Department joins the case, launching its own investigation.
- Sept 1985: European Union competition authorities launch investigation.
- July 1986: Microsoft and Justice Department agree consent decree to settle antitrust issues. Microsoft agrees to modify its contracts with PC manufacturers. Microsoft wins consent that it is not prohibited from developing "integrated products".
- Aug 1986: Consent decree rejected by a federal court.
- Sept 1986: Justice Department starts investigation of Microsoft's marketing practices for its internet browser.
- Dec 1987: Justice Department files lawsuit charging that Microsoft has violated 1995 consent decree by bundling Internet browser with Windows 95. Microsoft claims there are "integrated products".
- Dec 1987: Court issues injunction forcing Microsoft to offer "browser-less" version of Windows 95. Microsoft then appeals.
- Aug 12 1988: Appellate court rules that injunction does not apply to Windows 95. San Microsystems seeks preliminary injunction against Windows 95. Texas pulls out of multi-state antitrust investigation of Microsoft.
- May 18: Justice Department agrees to postpone suit against Microsoft pending test-court negotiations.
- May 16: Negotiations break down.
- May 16: Justice Department and 20 states file charges against Microsoft.

## 'High rate of ignorance' over US social security

By John Authers in New York

Most Americans are ignorant about the social security system, and do not even know that the retirement age for those now under 30 has been raised to 67, according to a Gallup survey to be published today by Paine Webber, the New York-based brokerage.

The survey is to be released before today's publication in Washington of a "21st Century Retirement Plan" by the National Commission on Retirement Policy, a bipartisan committee of legislators and industry leaders.

The plan is expected to call for a further increase in the retirement age to 70, and for employees to be required to pay a part of their payroll tax for social security into individual investment accounts.

Donald Marron, Paine Webber's chief executive and a member of the committee, said that without "significant changes" in the way social security was managed, the retirements of the post-war "baby boom"

generation would "put a tremendous strain on the system".

He said it was "imperative that Americans fully understand the trade-offs associated with varying proposals, which makes education crucial to any long-term solution".

He added that problems with education varied across

'Most Americans will be saving very small amounts'

the ages, and that the group had proposed differing plans for those above and below the age of 45. Beyond education, he said the fund management industry had a duty to produce products that were simple, and at a cost low enough to ensure that even those making small contributions could benefit from them.

"We've got to recognise that the majority of Americans will be saving very small amounts, and

that means these resources have to be managed at very low cost, with very simple choices."

According to the Gallup poll, only 12 per cent of Americans under the age of 30 expect to receive all or most of the benefits to which they are entitled under social security, compared with 21 per cent of those aged between 30 and 49.

Only 6 per cent knew that 67 was now the retirement age, while two thirds believed it was 65 or younger. Ignorance on this point was evenly spread across age groups, and was common to both men and women.

Most viewed social security as a tax, 80 per cent said they had "no idea" how much they paid, and only 10 per cent said correctly that contributions were in a band between 10 and 15 per cent.

Demographic projections suggest the US could become a nation of net "disasters" as early as 2005. This will put heavy pressure on the social security system in the following decade.

## Twists in murder case may embarrass Menem

By Ken Warr in Buenos Aires

Argentine businessman Alfredo Yabrán was on the run yesterday after a judge ordered his arrest in connection with the January 1997 murder of news photographer José Luis Cabezas.

The latest twists in the case could prove highly embarrassing for the government of President Carlos Menem. Mr Yabrán is allegedly linked with the highest echelons of political power.

Police raided Mr Yabrán's Buenos Aires suburban home and 14 other properties over the weekend.

The murder, along with a growing list of high-profile corruption cases, involving both the ruling Peronist and opposition Radical parties, have led some local commentators to believe Argentina is on the brink of an Italian-style crusade against corruption and impunity.

The arrest order came after the ex-wife of Gustavo Pelfredo, the former policeman accused of carrying out the murder, testified that her former husband said he had worked for Mr Yabrán

and the businessman had instigated the killing.

Mr Yabrán has repeatedly denied any involvement. His lawyers said he was the victim of a political conspiracy led by Eduardo Duhalde, governor of Buenos Aires province.

Mr Duhalde, they allege, is desperate to bring the case to trial to enhance his political prestige.

Corruption fight was 'possible, but not probable'

cal prestige and wrest control of the Peronist party from Mr Menem.

Mr Cabezas's murder, with its echoes of the political violence of the 1970s, stunned Argentines. His body was found bound and shot in his burnt-out car. In 1996 the photographer covertly took some of the first published photographs of the reclusive businessman.

Mr Yabrán has been involved in controversy before. In August 1995 then-

economy minister Domingo Cavallo alleged in Congress that Mr Yabrán was a mafia boss.

Mr Cavallo has accused the government of initially drafting rules for the privatisation of the state postal service and the airports in ways that would entrench Mr Yabrán's interests.

The businessman denied the accusations. Last December a group of postal, distribution and airport services companies allegedly controlled by Mr Yabrán was sold to US-backed private equity fund The Excel Group for \$605m.

An onslaught against corruption and impunity was "possible, but not probable", said political analyst Rosendo Fraga.

Along with current corruption cases, such as the trial for embezzlement of former Radical governor of Córdoba province, Eduardo Angeloz, it could benefit the presidential candidacy of Graciela Fernández Meijide, he said. Her Frepaso party, allied with the Radicals, is so far untroubled by corruption allegations.

### NEWS DIGEST

#### BRAZILIAN PRIVATISATION

### Telephone sell-off doubts eased as curbs ruled out

The Brazilian government has removed two big doubts over privatisation of the country's telephone network by announcing that no limit will be placed on foreign companies taking part in the sale, due to begin in July, and that bidding consortia will not be obliged to include a telecoms operator.

The decision, published yesterday, confirmed indications given last week by Fernando Henrique Cardoso, Brazil's president, that restrictions imposed on previous sales would be lifted. It was seen as an attempt to maximise revenues from the sale in response to the higher cost of finance following the Asian crisis. Analysts expect the sale to raise about \$20bn.

Both restrictions applied to consortia taking part in the recent sale of so-called B-band cellular operating licences to compete with A-band services offered by the public sector. Foreign companies were limited to 49 per cent of B-band licences. The limits will apply, however, to consortia applying for operating licences to compete with the privatised network, to be offered once the sale is completed.

The network is due to be restructured into 12 operating companies before the sale. The communications ministry plans to issue tender documents on May 29 and accept bids on July 15. Jonathan Wheatley, São Paulo

#### CHILE POLLUTION

### Santiago smog emergency

Santiago's authorities have declared a state of environmental emergency in the Chilean capital as freak warm weather continues to worsen the city's winter smog. Classes in nursery and primary schools in three of the worst-affected areas have been suspended. While the emergency lasts, only two of every 10 private cars without catalytic converters can be used between 6am and 9pm. Public transport and goods vehicles are similarly restricted.

Smog is a regular feature of life in Santiago during the autumn and winter months from May to September, when contaminants are trapped in the streets by a layer of cold air above the city. The mountains that ring the city also block out the winds, so the only, brief, respite comes from occasional rain.

Dust particles from unpaved roads and building sites are a significant pollutant, while the other main contaminant is ozone, produced by the reaction between sunlight and nitrous oxide gas from car engines. Santiago was declared "ozone-saturated" in 1996. Imogen Mark, Santiago

#### DOMINICAN REPUBLIC

### President loses ground in poll

President Leonel Fernández, of the Dominican Republic faces a difficult task in implementing a range of economic and constitutional reforms after the failure of his centrist Liberation party to gain control of Congress in legislative elections at the weekend.

Preliminary results indicate that the social democrat Revolutionary party has strengthened its control of the legislature, taking 25 of 30 Senate seats and at least 100 of 140 seats in the chamber of deputies. The party also took control of most of the 115 municipalities contested at the weekend. Its strong showing came a week after the death of its leader, José Francisco Peña Gómez.

Mr Fernández, who became president two years ago, has been unable to get legislators from other parties to approve most of his proposals. These include the privatisation of several state enterprises, mainly the power company, and constitutional changes which would allow presidents to stand for a consecutive term.

The new legislature will be installed in August, and the president will seek alliances in an effort to get approval for his proposals, according to government officials.

Without assured support in Congress, however, Mr Fernández will be hard pressed to maintain expansion in the economy, which grew last year by 8.2 per cent, following 7.3 per cent growth in 1995. Carina James, Kingston

## Displaced peasants get new start on drug baron's estate

Part of the playground of Pablo Escobar has been handed over to victims of Colombia's violence, writes Adam Thomson

Ten years ago, Hacienda Nápoles was the venue for multi-million-dollar cocaine deals and the capricious of Colombia's now deceased drug lord, Pablo Escobar. Elephants, rhinoceroses, hundreds of gazelle and a Tibetan yak - among other creatures - grazed on the extensive estate. Above the main entrance, Escobar displayed a small aircraft in which he allegedly made his first cocaine delivery to the US. The 7,000-hectare country residence came to embody the spirit of the country's decadent drug wealth.

Today, part of the hacienda has become a showpiece of a different kind. Using the December 1996 Asset Forfeiture Law, which enables the authorities to expropriate properties and goods acquired with illicit funds, the Colombian government last month handed some 500 hectares of Hacienda Nápoles to 15 families who until recently were landless victims of the country's violence.

"We wanted to turn the history of Hacienda Nápoles around 180 degrees so that what at one time served to promote crime can now be used to promote a project for the lives of needy people," said César Manuel García, who advises the president on the issue of displaced people.

"Receiving this land represents a new start for us," said María Dora Isaza, the mother of one of the families that now inhabit part of the infamous hacienda.

Until two years ago, Mrs Isaza, together with her husband and children, were peasants with a fertile, 30-hectare landholding in the war-torn northern province of Uribe. That was until the day a group of armed men arrived and told them to leave immediately if they valued their lives. "They told us they were professional soldiers but you can never tell who they are," said Mrs Isaza.

The lucrative drugs trade has played a large part in Colombia's violence. During the 1980s, drug lords backed



President Ernesto Samper last month viewing Escobar's estate, which includes copies of dinosaurs AP

unresolved ambiguities in the legislation. The government, under great pressure to regain credibility following a scandal in which millions of dollars of drug money funded President Ernesto Samper's 1994 presidential campaign, concentrated on speed rather than detail when it was pushing the law through Congress.

"The law, for all its good intentions, is very difficult to interpret and apply," said a public prosecutor at the Special Asset Forfeiture Unit. The lack of clarity has given owners of expropriated property plenty of opportunity to appeal. In one case,

the lawyer of a suspected drug trafficker has held up a verdict for months by introducing 50 separate appeals.

The Hacienda Nápoles case is also suffering delays. The lawyer for Pablo Escobar's family said he would begin legal proceedings against the government for handing over some of the land before a definitive decision had been reached.

The impasse is causing problems for displaced families and is undermining the technical support which they receive from Incofa, the government body in charge of redistributing expropriated agricultural lands.

Because of the uncertainty of the verdicts, Incofa has had to design short- and medium-term farm projects for the displaced families. Investment is kept to a minimum for fear the government could lose the cases and the lands with them.

Mr García is aware of the problem. But he argues that it is better to hand over the land provisionally than to allow displaced families to continue living in sub-human conditions by the side of railway escarpments or in urban slums. "The legal cases can take months and we can make use of the lands in the meantime," he said.



## ADVERTISEMENT

## THE GERMAN PFANDBRIEF

## Progress Report for Investors

## Attracting world investment community

## German Pfandbrief making giant strides in size and innovation

The structure of Europe's bond markets is experiencing unprecedented change. On the one hand, the new fiscal prudence that EMU is forcing upon first wave European Union economies is leading to diminishing volumes of new supply in government bond markets. On the other hand, currency considerations are set to become increasingly irrelevant in the euro zone as individual currencies disappear. The result is that institutions investing in the new Eurozone will need to look elsewhere for fixed-income instruments that match government bonds in terms of security and liquidity, but which can offer a pick-up over traditional government paper.

Few fixed-income instruments can offer this combination as efficiently as the German Pfandbrief in general and the highly liquid Jumbo Pfandbrief in particular. Today, the German Pfandbrief is the world's largest non-government bond market outside the U.S.

The security of Pfandbriefe – bonds issued to refinance public-sector loans and mortgages – is beyond question, and is most immediately evident from the fact that in the long history of the market, no investor has ever failed to receive payment of full interest and principal on a Pfandbrief issue held to maturity. This unsurpassed track record is an ample testimony to the solidity of the regulatory framework governing the issuance of Pfandbriefe, and to the security of the collateral that backs them.

## Liquidity, liquidity and liquidity

An added benefit as far as international investors are concerned is that the solidity embedded in the regulatory framework governing the Pfandbrief market has been given a stamp of approval by leading international rating agencies.

All Public Pfandbriefe rated to date by Standard & Poor's, and all but one of those rated by Moody's, have been assigned the top possible rating.

Allied to this security are the very high levels of liquidity which have arisen since the launch and development of the Jumbo Pfandbrief market in May 1995. Since then, a number of refinements to

The German Bond Market  
As of December 31, 1997

Market Share of Pfandbriefe  
in Circulation



DM 4.3 TRILLION

the issuing process have formalized and standardized the market. Above all, each Jumbo Pfandbrief issue must amount to at least DM 1 billion and be supported by at least three market-makers prepared to quote continuous bid and ask prices for lots of up to DM 25 million in tight spreads of between 5 and 10 basis points, depending on the maturity of the issue.

A growing recognition on the part of international investors of the safety of the Pfandbrief, combined with the attraction of guaranteed liquidity, has fueled a surge in demand for Jumbo issues outside as well as within Germany, and the mortgage banks have been quick to take advantage of the new possibilities this

has presented for issuing new bonds in large quantities.

## "Precipitous growth" of the Pfandbrief

This in turn has led to what Dresdner Kleinwort Benson (DKB) described in a January report as the "precipitous growth" of the Jumbo Pfandbrief market, which took the total amount outstanding to over DM 220 billion by end-1997, following issuance for the year as a whole of DM 113.8 billion – an impressive figure for a market less than three years old. DKB, for one, predicts total issuance volume for 1998 of DM 140 billion.

There are a number of reasons underpinning market participants' bullishness on the prospects for Pfandbrief issuance in 1998. The growing international visibility and attractiveness of the Pfandbrief is fueling ever increasing demand for the bonds among investors outside Germany. Additionally, a new factor that will come into play in 1998 is the maturing of existing issues which will need to be refinanced, creating a self-perpetuating supply cycle. On March 5 of this year, a Jumbo Pfandbrief – Hypothekbank in Essen's DM 1 billion issue – matured for the first time. In 1998, DM 7.5 billion in Jumbo issues will mature.

## A new international asset class

Historically, issuers of German Pfandbriefe encountered no difficulty in placing their paper with a local investor base. With the approach of EMU, however, Germany's mortgage banks were among the first sizeable group of European issuers to recognize the desirability and opportunities to expand beyond their traditional domestic investor base. This is most clearly shown by the fact that Germany's mortgage banks have already signaled their intention to redenominate Jumbo Pfandbrief issues into euros at the start of 1999.

As a result, the single most prominent characteristic in the primary Pfandbrief market over the last 12 to 18 months has been the increasing energy with which Germany's mortgage banks have sought to cultivate a new international base. Last year saw the first foreign-currency Pfandbrief issues in several innovative deals. Aside from involving institutional investors around the world, the process of internationalization has also brought a host of new participants into the Pfandbrief market – most notably international investment banks and the rating agencies. Highlights of 1997 included RHEIN-HYP's euro 10 billion MTN Programme, allowing the bank to issue all kinds of bonds, including Pfandbriefe. In addition, Bayerische Vereinsbank took the internationalization of the Pfandbrief into new territory with a DM 2 billion Global. Sold under Section 3 (a) 3 of the US Securities Act, this was technically the first Pfandbrief which could be offered for public sale in the U.S.

Another landmark deal last year saw a German Pfandbrief denominated for the first time in Sterling. Hypothekbank in Essen's £ 150 million seven-year transaction, was priced to yield 20 basis points over UK Gilts.

The early months of 1996 have seen a continuation in this trend of Pfandbrief issuers cultivating an increasingly diverse international investor base. DePfa-Bank, for instance, has built upon the foundations it had already laid down in the international market with the launch of a Global Pfandbrief issue of DM 4 billion which broke new ground as the largest single Pfandbrief issue ever launched. More significant still was that no issuer other than governments and German federal states had ever issued larger DM-denominated transactions.

Another significant transaction was the launch of a Sfr 600 million 10-year Pfandbrief issue by Frankfurter Hypothekbank Centralboden in late March. Allgemeine Hypothekbank (AHB) also added a new dimension to the internationalization process with the first ever euro-denominated Pfandbrief – a euro 1 billion issue due in 2004 which was priced at 8 basis points over the euro-denominated French government bond. In a similar vein, Westfälische Hypothekbank launched a DM 2.5 billion Pfandbrief issue off its euro 10 billion MTN Programme. The deal incorporated a euro fungibility clause allowing for future issues in other mainstream EMU currencies.

## Initiatives to improve transparency and efficiency

Aside from the rapid development of the Jumbo Pfandbrief market over the last 36 months, including the growing internationalization of the product, market participants have been continuously seeking to implement other initiatives aimed at enhancing the efficiency and transparency of the sector. In this context, the launch of the JEX index together with the JEXP performance index in October was a milestone in the evolution of the market. The real-time index uses data provided by some 35 Jumbo Pfandbrief market-makers, and is based on a synthetic portfolio of 30 bonds with residual maturities of between one and 10 years.

The introduction of JEX and JEXP represents an important step forward for the Pfandbrief market. Significantly, they pave the way for the launch of a Pfandbrief future, which in turn will allow investors to hedge their exposure to the sector more efficiently. To date, the absence of a hedging instrument has not been a formidable stumbling block to the development of the Jumbo Pfandbrief market. But investors are expected to welcome the launch of a Pfandbrief future contract which is widely expected in 1998.

## Enhanced safety and market depth

## Reinforcing the Pfandbrief's credit quality

Although its track record in terms of safety is unsurpassed in Germany, a number of other measures have recently been initiated which have reinforced the credit quality credentials of the Pfandbrief still further. For example, the European Monetary Institute has already indicated that the Pfandbrief will be eligible for Lombard and repo transactions as Tier 1 assets.

## New legislation

More recently still, the start in April of Germany's Third Financial Market Promotion Act has also helped strengthen the market position of the Pfandbrief. As far as Pfandbrief investors are concerned, by far the most important component of this Act is that it will precisely

## The mortgage banks at work in 1997

## Record lending and issuing activity

In 1997, Germany's private mortgage banks established new records for both lending and Pfandbrief issuance. Total new loan commitments reached DM 317.1 billion, an increase of 13.4% over 1996. Of this total, public-sector lending rose by nearly 20% to DM 219.5 billion, while commitments for mortgage loans advanced to DM 97.6 billion, a growth of 1.7% over the strong year-earlier figure.

In the run-up to EMU, the mortgage banks continued to step up their lending considerably in other EU states, more than doubling their commitments to DM 32.7 billion.

Issuance by the mortgage banks of Public and Mortgage Pfandbriefe reached a record volume of DM 275 billion, up 18.5% over 1996. Of this amount Public Pfandbriefe issued rose by 17.8% to DM 204.6 billion, and Mortgage Pfandbriefe totaled

DM 70.3 billion (+20.9%). Including the figures through end-1997, all German Pfandbrief issuers had bonds outstanding of DM 1.6 trillion or 37% of the total German bond market of over DM 4.3 trillion, and was more than twice the size of the Bund market. Of total Pfandbriefe outstanding, the mortgage banks with DM 1,013 billion accounted for some 63% of this market.

At year-end 1997, 140 issues accounted for Jumbo Pfandbriefe outstanding of about DM 235 billion. The private mortgage banks launched Jumbo issues amounting to about four-fifths of the total.

In 1998, the mortgage banks will continue their concerted drive in preparation for EMU. In the euro zone, which will be the world's second-biggest bond market, the goal is to enhance the German Pfandbrief's leadership in the non-government segment.

## Germany's Mortgage Banks in Perspective

Year-end 1997	Total Issuance DM billion	Mortgage Banks DM billion	Market share %
<b>ISSUING</b>			
Domestic bonds outstanding	3,798.5	1,097.5	28.9
Domestic bank bonds outstanding	2,422.3	1,097.5	45.3
Pfandbriefe outstanding	1,583.1	1,013.3	63.6
<b>LENDING</b>			
Residential property	1,543.9	363.0	23.5
Commercial real estate	367.5	177.9	48.4
Federal, state, municipal governments	892.1	460.8	51.7

## GERMANY'S MORTGAGE BANKS

DEFA-BANK, WIESBADEN  
BAYERISCHE VEREINSBANK AG, MÜNCHEN  
HYPO-BANK, MÜNCHEN  
DEUTSCHE HYP, FRANKFURT  
FRANKFURTER HYPOTHEKENBANK, CENTRALBODEN AG, FRANKFURT  
RHEINHYP, FRANKFURT  
BERLIN-HANNOVERSCHE HYPOTHEKENBANK AG, BERLIN AND HANNOVER  
DEUTSCHE GENOSSENSCHAFTS-HYPOTHEKENBANK AG, HAMBURG  
HYPOTHEKENBANK IN ESSEN AG, ESSEN  
BAYERISCHE HANDELSBANK AG, MÜNCHEN  
ALLGEMEINE HYPOTHEKENBANK AG, FRANKFURT  
WESTHYP, DORTMUND  
WÜRTTEMBERGER HYPOTHEKENBANK AG, STUTTGART  
HAMBURGHYP, HAMBURG  
SÜDDEUTSCHE BODENKREDITBANK AG, MÜNCHEN  
DEUTSCHE HYPOTHEKENBANK (ACT.-GES.), HANNOVER  
MÜNCHENER HYPOTHEKENBANK AG, MÜNCHEN  
NÜRNBERGER HYPOTHEKENBANK, NÜRNBERG  
DEXIA HYPOTHEKENBANK BERLIN AG, BERLIN  
RHEINBODEN HYPOTHEKENBANK AG, KÖLN  
NORDHYPOTHEKENBANK, HAMBURG  
SCHLESWIG-HOLSTEINISCHE LANDESBANK, LÜBECK  
BfG HYPOTHEKENBANK AG, FRANKFURT  
LÜBECKER HYPOTHEKENBANK AG, LÜBECK  
WL-BANK, MÜNSTER  
WÜSTENROT HYPOTHEKENBANK AKTIENGESellschaft, LUDWIGSBURG  
M.M. WARBURG & CO HYPOTHEKENBANK AG, HAMBURG

For further information about German Pfandbriefe please contact:  
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E-mail: vdh@hypverband.de

## Jumbo Pfandbrief Issuers

As of March 31, 1998

Issuer	Number of issues	Total volume DM billion	Market share%
1. Allgemeine Hypothekbank	21	37,750	13.11
2. DePfa-Bank	17	36,500	12.68
3. Hypothekbank in Essen	16	27,500	9.85
4. Rheinhypothekbank	12	33,000	7.99
5. Deutsche Hypothekbank Frankfurt	13	19,750	6.86
6. Westdeutsche Landesbank	7	14,750	5.22
7. Bayerische Vereinsbank	11	14,500	5.04
8. Frankf. Hypothekbank Centralboden	8	14,500	5.04
9. Westfälische Hypothekbank	7	11,000	3.82
10. Berlin-Hannoversche Hypothekbank	5	9,000	3.13
11. DGB HYP	5	9,000	3.13
12. Landesbank Sachsen	6	8,500	2.95
13. Württembergische Hypothekbank	6	8,200	2.85
14. Hypo-Bank	6	7,500	2.62
15. Hypothekbank in Hamburg	4	7,000	2.49
16. Deutsche Hypothekbank Hannover	5	6,500	2.26
17. Norddeutsche Landesbank	3	5,600	1.95
18. Bayerische Landesbank	3	5,350	1.86
19. Nürnberger Hypothekbank	4	4,000	1.39
20. Deutsche Girozentrale	3	4,000	1.39
21. Deutsche Kommunalkbank	3	3,500	1.22
22. Dexia Hypothekbank Berlin	2	2,900	0.87
23. Rheinboden Hypothekbank	2	2,000	0.69
24. Bayerische Handelsbank	2	2,000	0.69
25. RHEINHYP	1	1,000	0.35
26. Schleswig-Holsteinische Landschaft	1	1,000	0.35
27. Süddeutsche Bodenkreditbank	1	1,000	0.35
28. Wüstenrot Hypothekbank	1	1,000	0.35
<b>Total Jumbo Pfandbrief Market</b>	<b>275</b>	<b>287,900</b>	<b>100.0</b>



## ASIA-PACIFIC

## Banks request postponement of Indonesia debt talks

By Stephen Fidler in Washington, Edward Luce in London and Gillian Triggs in Tokyo

Leading banks have requested the postponement of debt restructuring talks with Indonesia after last week's riots, bankers said yesterday.

They said a meeting between the three co-chairmen of the country's bank advisory committee, Chase

Manhattan, Deutsche Bank and Bank of Tokyo-Mitsubishi, set for New York this week, had been postponed by a week. Conditions were not right for further discussions, they said.

The banks have also asked for the postponement of a further meeting with the government which was set for Frankfurt on May 26. This was due to deal with the debt owed to international banks by private-

sector companies, which constitutes more than three-quarters of Indonesia's \$60bn debt to international banks. Resolving this commercial debt problem is expected to require a mechanism called *Indra*, similar to the so-called *Ficorica* arrangement devised by Mexico in the early 1980s, to deal with its commercial debt problems. Bankers said that unlike *Ficorica*, debt payments would be converted

from local currency into foreign currency at the prevailing market exchange rate with no government subsidy. They also said bankers were keen to ensure that companies which could pay their debts were excluded from the programme. "The feeling is that we can still move ahead on this thing," said one bank official in New York. However, bankers say a resolution of Indonesia's pri-

mary sector debt is likely to be a drawn out process owing to the diverse range of Indonesian companies affected. These range from near-bankrupt homegrown companies to subsidiaries of Japanese corporations based in Indonesia. The goal of hammering out a workable formula is likely to be further hindered by the reluctance of Japanese banks to record further losses in advance of the

release of their annual financial results in late June. Japanese banks - many of which have steeply increased their bad loan provisions in recent months - are the most heavily exposed to Indonesia with about \$23bn on their books. As one US banker says: "One gets the impression that the Japanese are spending quite a lot of time dragging their feet." The uncertainty in Jakarta

has also raised the question of whether the International Monetary Fund would go ahead to disburse any more funds. In the first place, the possibility of a change of government would deter the Fund from making further disbursements. Any new government would have to sit down with a Fund team to negotiate a new package. Second, the Suharto government has reversed price rises that were an important

element in the IMF accord. Third, the IMF team of two permanent representatives and a six person mission has been evacuated. However, having disbursed \$1bn to Indonesia on May 4, the IMF does not seem to be making a decision on further disbursement until early June. In briefings last week, US government officials said the administration continued to back the IMF-led package.

## Fires light up the collapse of the house of Suharto

Resented privilege is under attack, write Sander Thoenes and John Ridding

The last taxi back on the streets of Jakarta after the riots last week were the dark blue Citra cabs of Sili Hardiyanti Rukmana, President Suharto's eldest daughter.

"They knew that if they got on to the streets earlier they would have been torches," a driver of a competing taxi company said. "People don't like Tutut."

Tutut is the nickname of Mrs Hardiyanti, one of Mr Suharto's six children. A popular joke holds that she got her nickname because she enjoys the sound of cars honking on the toll roads built by Citra Marga, one of her 55 companies.

But many of her toll booths were destroyed in the rioting. Venting their rage at the Suharto family, mobs set fire to showrooms for cars produced by two of her brothers and ravaged many of the branches of their banks.

Staff said Mrs Hardiyanti and her youngest brother, Hutomo Mandala Putra, were back at their offices yesterday, denying rumours

that they had fled the country. But Mr Suharto and his family face increasing pressure to give up their business privileges; a group of Muslim leaders over the weekend demanded they hand back their property to the government.

Investors got the message. Shares in Citra Marga were down 11.76 per cent at Rp375 (3% US cents) by noon yesterday, compared with last year's high of Rp1,500. Bimantara, a conglomerate controlled by Mr Suharto's second son Bambang Trihatnjo, fell 6.67 per cent to Rp300, compared with a high of Rp4,500.

One western consultant who worked with the Suharto family warned that collapse of the family's business empire could prove costly to hundreds of foreign enterprises and banks - particularly Japanese ones - that teamed up with them.

"But foreign partners should have seen this coming," he said. "A few years ago we were advising a big international fund on Indonesian infrastructure invest-

President Suharto and Family Inc.

Citra Marga Group	
Assets: Rp4,700bn	Companies: 30
Business: Three foundations, ultimately controlled by Suharto, which own property in companies such as Agri and Transport	
Partners: Prospero, Mochtar, Sili Hardiyanti Rukmana (daughter)	
Children: Sili Hardiyanti Rukmana (daughter)	

Bimantara Group	
Assets: Rp2,400bn	Companies: 20
Business: Automobiles, chemicals, media, infrastructure, telecommunications, hotels, shipping, tourism, etc.	
Partners: American Express, Mochtar, Sili Hardiyanti Rukmana (daughter), Sili Hardiyanti Rukmana (daughter)	
Children: Sili Hardiyanti Rukmana (daughter)	

Hutomo Group	
Assets: Rp2,000bn	Companies: 20
Business: Shipping, construction, oil, gas, telecommunications, etc.	
Partners: Mochtar, Sili Hardiyanti Rukmana (daughter), Sili Hardiyanti Rukmana (daughter)	
Children: Sili Hardiyanti Rukmana (daughter)	

Hutomo Group	
Assets: Rp2,000bn	Companies: 20
Business: Shipping, construction, oil, gas, telecommunications, etc.	
Partners: Mochtar, Sili Hardiyanti Rukmana (daughter), Sili Hardiyanti Rukmana (daughter)	
Children: Sili Hardiyanti Rukmana (daughter)	

ments, and we said that connections to the first family would become a liability one day. They went ahead. That day has now come."

Mr Suharto's inability to restrain his children has been one of the causes of his fall from grace. They remained oblivious to the rising resentment against them and pushed ahead with controversial ventures even as they hurt their father's standing and jeopardised \$43bn in loans arranged by the International Monetary Fund. Mr Hutomo held on to a clove monopoly that impoverished farmers even after his father had officially abolished it to meet an agreement with the IMF.

By government account, Mr Suharto's sons were the eighth, ninth and 14th largest taxpayers in Indonesia last year. Forbes, the US

magazine, last year placed Mr Suharto third in its "king or tyrant" category, estimating him to be worth some \$15bn and the whole family \$46bn - some \$30m more than the IMF package (at last year's exchange rate). Some of this is held in real estate, bank accounts and shares abroad, including in Automobile Lamborghini, United Pulp & Paper and Van der Horst of Singapore. But most analysts believe much of the family wealth was held at home. It has been heavily devalued by the rupiah's depreciation and devastated by the country's economic collapse.

Sempati Air, the airline of Mr Hutomo, had been all but bankrupt even before the crisis hit and has stopped flying. A big oilfield complex of Mr Bambang is burdened by \$1.37bn in debt, dragging

down several banks with it and threatening the Japanese trading house, Mr Bambang's assembly lines of Kawasaki motorcycles is badly hit by the rupiah depreciation, as many of the parts are imported and sales have collapsed.

Bimantara reported a 93 per cent drop in profits for 1997 on heavy foreign exchange losses and interest expenses. Other listed family businesses failed to report at all.

Much of the family fortune was built on levies and consulting fees rather than shares, and little of that is reported. In late 1997, western investors started complaining that the added cost of paying off the family and other well connected Indonesians had shot up to 30 per cent of the value of some

deals. "They have started the feeding frenzy before the downfall," one diplomat said at the time.

Mr Suharto has sacrificed some family businesses in recent months and Pertamina, the oil and gas monopoly, announced over the weekend that it had cancelled its exclusive contracts with two import agents controlled by two of Mr Suharto's sons. But they continue shipping oil and gas and laying pipelines at inflated fees.

Christiano Wibisono, a consultant, predicted any new government would want to spare foreign partners of the first family but confiscate the Suharto businesses. "You spare their lives but not their assets," he said. "They will be left with their bank accounts. I don't think they will be poor."

## Legislators prepare way for a transfer of power

By Sander Thoenes in Jakarta

With a surprise call for President Suharto's resignation, Indonesia's parliamentary leaders yesterday set in motion what could become a peaceful and constitutional transfer of power.

Harmoko, speaker of the House of People's Representatives, called for a long-term servant to the president, walked in on a student meeting in parliament with his four deputies to announce they would formalise a request for Mr Suharto's resignation tomorrow. "The House calls on the

entire community to remain united and create a peaceful and calm situation so that everything can proceed constitutionally," he said.

General Wiranto, chief commander of the armed forces, and other generals indicated as much yesterday when they stressed that Mr Harmoko's statement was an individual action that had no legal force. Any demand on Mr Suharto to quit must be made by the whole assembly, in a formal session, Gen Wiranto said. Umar Juoro, a prominent economist said Harmoko did not call for a special session

of the assembly. "He just asked Mr Suharto to step down. Harmoko was persuaded that Suharto is a sinking ship, he cannot be saved. But if Suharto says no and Harmoko and his deputies agree with the factions tomorrow, they can together call a special session of the Assembly of People's Deputies," Mr Juoro said. [The Assembly is the country's highest legislative body which incorporates the House and 500 others who have largely been hand-picked by Mr Suharto.]

Mr Juoro and diplomats said they expect Mr Harmoko to press ahead with today's meeting and then call a meeting of the Assembly. The House factions comprise the dominant government party Golkar, the Islamic PDI, the nationalist PDI Perjuangan, and ABRI, the powerful military which holds 75 unseated seats. The Assembly, which elected Mr Suharto for a seventh term by consensus in March, could then dismiss him and possibly also his unpopular vice president, B.J. Habibie. It could call elections or pick a new leader on the spot. Mr Suharto could yet try

to prevent the Assembly from meeting, or some of his generals could move in and impose their choice, but diplomats felt that was unlikely. "They are all talking constitutionality," one diplomat said. "They won't break the rules. Mr Suharto wrote those rules."

Although the Assembly members own their privileges to the president, popular frustration with Mr Suharto has become so widespread that they could spark another bout of violence if they stuck with him or if they appointed Mr Habibie instead.

An alternative option is for Mr Suharto to resign, which would leave Mr Habibie as acting president. The constitution is vague on whether this would require a special session of the Assembly to re-affirm Mr Habibie. "The best is for Suharto to step down and Habibie to become president for a transition period until everything calms down," Mr Juoro said. "Amien Rais [a popular opposition leader] could support that, because then he has a chance to run for president. He has no chance in this parliament. This is a crony parliament."

## Thai finance companies nationalised

By Ted Barndacke in Bangkok and Louise Lucas in Hong Kong

Thailand's central bank nationalised seven more ailing finance companies yesterday, wiping out shareholder equity and adding to the mammoth bill faced by Thai taxpayers for the rescue of the country's financial sector.

The seven companies included listed Union Asia Finance and Nava Finance, which were abandoned by their parent banks, Bangkok Bank and Thai Military Bank respectively, because of skyrocketing levels of non-performing loans and high interest rates.

Late last year, Thailand shut 56 finance companies after pouring in more than \$10bn of state funds in a vain effort to keep them afloat. In contrast, the seven nationalised finance companies will be merged with a

## Bangkok counts cost of turbulence

Thailand's deputy minister of finance, Pitsit Leasatam, has estimated that the total financial damage wrought to the Thai economy by the crisis which swept through south-east Asia, after effectively bringing in Thailand with the floating of the baht in July last year, is \$85,000bn (\$128.6bn), or 100

per cent of this year's gross domestic product. Mr Pitsit's calculation includes the effect of the plunging stock market and the effect of the exchange rate on borrowers. "This is a painful lesson; we have a duty to make sure it will never happen again, not just in Thailand but other countries," he said.

state-run company as the government attempts to recoup the more than \$300bn it has already lent to the central bank's financial institutions. Krungthai Thanakit Finance and Securities will take on the assets, worth approximately \$110bn (\$2.6bn), and the liabilities of the seven nationalised companies and receive a commercial banking licence as a bonus once its parent company, Krung Thai Bank, disposes of its controlling stake.

But because the move saddles Krungthai Thanakit with bad debt and additional liabilities to the central bank's financial institutions, rescue fund, the government has also pledged to pay for Krungthai Thanakit's recapitalisation as well.

The central bank, using the same rationale it used when it nationalised four commercial banks earlier this year, said it hoped to recoup some of its invest-

ment by selling shares in Krungthai Thanakit to the private sector. But many analysts doubt whether this will be enough. "It sounds like they're setting themselves up for further spending," said Russell Kopp, head of research at Dresdner Kleinwort Benson. Less than a year ago there were 91 finance companies operating in Thailand; now there are 28.

The deputy finance minister, Pitsit Leasatam, said many of the remaining companies were either controlled by foreign investors, had strong links with well-capitalised Thai banks, or were very conservative in their lending practices. "I will not promise that there will be no more financial institutions subject to government intervention," he said. "But the chance of the remaining ones getting into trouble is much less."

## India boosts contract approvals

By Amy Louise Kazmin in New Delhi

India has approved a flurry of foreign projects, prompting hopes it will try to counter punitive economic sanctions by accelerating the sluggish pace of clearing investment proposals.

The day after sanctions were imposed following India's five nuclear tests last week, P.R. Kumaraswamy, power minister, said the cabinet had granted "in principle" approvals for long-pending counter-guarantees for three fast-track power projects, including one involving a US company, CMS.

Subsequently, India said it

would speed clearance of long-pending proposals in oil exploration and production, and immediately sign production sharing contracts for 18 exploration blocks. Five of the companies awarded such contracts are from the US.

Also, India's Ministry of Mines awarded a licence to a US mining company, Phelps Dodge, to prospect for copper in the eastern state of Bihar. "They are looking to put pressure on the US government through the US private sector," a New Delhi-based western diplomat declared. Over the next few weeks, an official statement said, India will issue more clearances for pending infrastructure projects, including

investments in power, telecommunications, and ports, after Atal Behari Vajpayee, prime minister, said India's "speedy" resolution of bureaucratic disputes which have stalled many projects.

Jaswant Singh, a Bharatiya Janata party (BJP) leader, said yesterday the flurry of approvals following the nuclear tests was "clearly accidental"; the BJP has always been committed to economic growth. Many analysts believe the BJP hopes that stepping up the pace of awarding long-stalled contracts will persuade US companies to lobby for an easing of the sanctions imposed by the US and other nations last week.

"The government is being quite astute," said the head of research for a foreign brokerage house in Bombay. "It's clearly aimed at trying to soften the blow of sanctions."

The New Delhi-based representative for a foreign oil company said he believed the government would now bend over backwards to get projects moving. If only to show US-imposed sanctions were having no impact on India's economic prospects or its desirability as an investment destination. "They want to show the sanctions don't mean anything... that anything the US tries to do to them backfires," he added.

## NEWS DIGEST

## GROWTH CONTINUES TO SLOW

## HK's 3.9% unemployment is highest in 14 years

Unemployment in Hong Kong reached a 14-year high in the three months to April as the Asian financial crisis continues to slow economic growth in the territory and depress consumer spending. Government figures released yesterday show unemployment in the three months to April rose to 3.9 per cent, compared with 3.5 per cent in the three months to March. It is the highest level since the 4 per cent registered in 1984, when uncertainty engulfed Hong Kong before the Joint Declaration, which sealed the terms for its return to Chinese sovereignty in 1997. Tang Kwong-yiu, the government economist, said he expected unemployment to remain at the present high levels.

While the worst hit sectors have been construction and retail, with a number of shops responding to the downturn by closing staff and closing outlets, job-cutting has been across the board. At the top end of the salary scale, investment banks and securities houses have also been cutting staff. Louise Lucas, Hong Kong.

## ALL SECTORS WEAKER

## Singapore growth slows

The Singapore economy grew by 5.8 per cent in the first quarter of 1998, down from 7.6 per cent in the previous quarter, as all sectors showed weaker year-on-year growth. The seasonally adjusted unemployment rate rose to 2.2 per cent in March, from 2 per cent in December. A survey of private sector establishments with at least 25 employees showed about 7,000 workers were retrenched in the first quarter. Inflationary pressures were lower as weaker consumer demand pushed prices down. The Consumer Price Index was 1.1 per cent, down from 2.3 per cent in the previous quarter. Singapore's current account surplus narrowed to \$54.6bn (US\$2.8bn) in the first quarter, from \$54.6bn in the preceding quarter. Stella Nicklitz, Kuala Lumpur.

## POSTPONEMENT CALL

## Cambodia election threat

Cambodia's four leading opposition parties said yesterday they would pull out of the country's election unless it was postponed and conditions for a free and fair poll were in place. The parties, including the royalist Funcinpec party of ousted prime minister Prince Norodom Ranariddh and Sam Rainsy's Khmer Nation party, said they would continue to prepare for the election on July 28 but would only take part if electoral reforms were made soon. A boycott would undo months of international diplomacy aimed at restoring a measure of democracy to Cambodia. But by threatening to boycott, the opposition runs the risk of becoming irrelevant if it is not supported by the Friends of Cambodia group, an informal caucus of Asian and western powers trying to resolve Cambodia's political turmoil.

Hun Sen, the prime minister, dismissed the boycott threat, saying the elections would have to be held as scheduled or be postponed until 2003. The opposition parties said they wanted an end to political violence and intimidation, equal access to state-controlled electronic media, and an overhaul of the National Election Commission, dominated by backers of Hun Sen. Ted Barndacke, Bangkok.

## INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES					JAPAN					GERMANY					
Consumer prices	Producer prices	Wholesale prices	Unit labor costs	Real exchange rate	Consumer prices	Producer prices	Wholesale prices	Unit labor costs	Real exchange rate	Consumer prices	Producer prices	Wholesale prices	Unit labor costs	Real exchange rate	
1987	105.6	100.7	103.9	98.4	75.1	101.3	92.5	100.1	100.0	122.9	100.1	95.0	107.0	107.1	110.9
1988	105.9	102.2	106.9	100.2	71.0	102.3	92.3	97.8	96.0	101.4	96.2	107.0	106.9	108.9	110.7
1989	115.2	108.5	109.9	101.9	74.9	105.1	94.9	114.0	96.8	123.5	104.2	99.3	112.9	108.0	110.3
1990	121.6	115.9	115.9	104.9	79.2	108.9	95.7	120.1	98.7	138.2	107.0	101.0	117.9	110.3	109.9
1991	126.8	118.3	117.3	108.4	74.1	111.9	98.8	124.9	103.9	113.2	110.9	108.4	125.5	108.6	107.8
1992	130.4	117.7	120.1	108.4	74.1	114.0	95.9	125.6	112.8	114.5	116.8	104.9	130.1	115.3	110.0
1993	134.3	119.2	123.1	108.6	78.4	115.4	94.3	125.8	118.8	119.9	121.7	105.1	148.2	119.4	111.3
1994	137.8	119.9	125.5	107.9	74.1	116.2	92.6	128.4	118.5	137.3	126.1	105.7	152.5	112.1	110.1
1995	141.7	122.2	129.7	105.7	68.7	115.9	92.0	132.5	115.8	138.3	127.4	107.6	159.1	110.8	114.7
1996	145.8	125.4	133.9	104.6	73.4	115.6	90.4	135.8	113.2	117.7	129.3	107.1	163.0	108.7	113.0
1997	149.2	129.9	138.1	103.7	70.1	117.4	91.0	139.7	110.0	111.5	131.5	108.2	165.0	104.7	110.5
2nd qtr.1997	2.3	0.4	2.8	-1.1	78.4	1.5	1.3	2.9	-4.5	112.8	1.6	1.1	1.5	-0.0	102.4
3rd qtr.1997	2.2	-0.1	2.7	-1.4	76.6	1.7	1.3	2.7	-2.7	115.9	1.9	1.4	1.3	-8.2	103.9
4th qtr.1997	1.9	-0.7	3.4	-0.7	80.2	2.1	1.1	1.8	1.3	108.1	1.8	1.1	0.9	-5.5	104.4
1st qtr.1998	1.5	-1.7	3.0	-0.7	81.9	2.1	1.1	1.8	1.3	106.6	1.2	0.6	0.8	10.4	104.4
May 1997	2.2	0.4	3.0	-1.0	78.0	1.4	1.4	2.9	-5.1	112.9	1.6	1.1	1.3	-4.0	103.9
June	2.3	-0.1	2.8	-1.0	77.7	1.3	1.4	3.0	-5.1	117.4	1.7	1.4	1.3	-6.1	104.4
July	2.2	-0.2	2.5	-1.3	78.6	1.4	1.3	3.2	-3.3	118.0	1.9	1.4	1.5	-3.3	105.3
August	2.2	-0.2	2.8	-1.3	80.0	1.5	1.3	3.2	-2.9	118.0	2.0	1.5	1.2	-4.1	108.1
September	2.1	0.0	2.7	-1.1	79.9	2.2	1.4	1.5	-3.1	112.8	2.9	1.4	1.2	-5.1	108.6
October	2.1	-0.3	3.6	-0.9	78.4	2.4	1.3	1.5	-1.0	111.6	1.8	1.2	1.1	-6.2	104.1
November	1.8	-0.7	3.4	-0.4	79.7	2.0	1.1	1.8	3.2	107.4	1.9	1.2	0.5	-4.1	104.3
December	1.7	-1.2	3.2	-0.6	81.6	1.8	0.9	1.5	1.6	105.2	1.8	1.1	1.2	-6.2	103.9
January 1998	1.6	-1.8	2.8	-0.5	82.3	2.0	0.9	1.4	0.4	106.4	1.3	0.7	1.2	10.4	104.4
February	1.4	-1.8	3.1	-0.3	81.5	2.0	0.4	0.1	0.1	108.4	1.1	0.7	1.2	10.4	104.4
March	1.4	-1.8	3.1	-0.3	82.0	2.2	0.4	0.1	0.1	108.8	1.1	0.6	1.2	10.4	104.4
April	1.4	-1.2	3.4	-0.2	82.4	0.7	0.7	0.7	0.7	103.4	1.4	0.6	1.2	10.4	103.5
FRANCE					ITALY					UNITED KINGDOM					
Consumer prices	Producer prices	Wholesale prices	Unit labor costs	Real exchange rate	Consumer prices	Producer prices	Wholesale prices	Unit labor costs	Real exchange rate	Consumer prices	Producer prices	Wholesale prices	Unit labor costs	Real exchange rate	
1987	105.9	98.1	107.8	108.0	104.7	111.0	102.2	111.6	105.5	102.1	107.7	104.8	116.3	106.8	104.6
1988	108.8	102.9	111.4	104.1	102.1	116.5	105.7	118.4	106.7	100.9	118.0	108.7	128.2	108.6	109.9
1989	109.9	103.9	109.9	104.9	102.1	124.1	119.0	125.5	112.7	103.1	121.9	119.5	137.2	114.1	110.0
1990	116.5	107.1	121.5	106.8	102.9	125.9	117.7	118.2	105.9	101.9	133.3	119.9	148.2	114.1	109.9
1991	120.2	105.8	127.1	113.4	100.7	140.3	120.0	147.9	129.6	101.1	141.2	127.5	162.4	127.9	104.4
1992	128.1	104.3	133.2	115.6	104.2	147.7	122.3	165.9	134.5	109.5	146.4	131.5	173.1	128.2	109.0
1993	135.6	107.8	136.6	118.1	101.1	165.9	128.9	178.9	167.6	106.8	168.3	150.1	195.1	127.9	109.9
1994	127.7	102.7	138.2	106.0	104.1	160.0	115.0	160.7	138.1	93.3	132.4	140.1	190.5	127.1	94.1
1995	130.0	105.7	141.5	105.1	108.8	142.0	120.0	172.2	138.1	90.3	157.9	146.0	198.0	137.1	90.7
1996	135.9	105.0	145.9	104.9	109.9	161.7	144.7	175.3	146.7	90.9	161.6	146.8	208.8	138.6	90.7
1997	134.2	105.2	148.0	102.7	102.1	178.2	146.6	181.6	146.7	90.7	178.5	157.5	181.6	146.7	90.7
2nd qtr.1997	0.8	-0.8	2.7	n.a.	102.7	1.6	1.2	3.8	n.a.	102.1	2.7	1.0	4.2	3.0	108.9
3rd qtr.1997	1.3	0.5	2.8	n.a.	100.3	1.5	1.7	3.4	n.a.	101.8	3.5	1.3	4.1	2.8	117.1
4th qtr.1997	1.2	0.9	2.8	n.a.	102.0	1.6	1.5	3.3	n.a.	102.7	3.7	1.0	4.6	3.9	112.0
1st qtr.1998	0.7	2.8	n.a.	103.2	1.7	1.1	n.a.	n.a.	102.0	3.4	0.8	5.3	5.4	114.1	104.4
May 1997	0.8	n.a.	n.a.	102.2	1.8	1.1	3.8	n.a.	102.2	2.8	1.0	4.3	3.8	107.7	104.4
June	1.0	n.a.	n.a.	102.0	1.8	1.1	3.9	n.a.	102.3	2.9	1.0	4.3	3.8	107.7	104.4
July	1.0	n.a.	n.a.	99.6	1.8	1.7	3.4	n.a.	101.6	3.4	1.3	4.0	2.9	114.3	104.4
August	1.5	n.a.	n.a.	99.9	1.5	1.7	3.4	n.a.	101.6	3.6	1.4	4.4	2.8	111.4	104.4
September	1.3	n.a.	n.a.	97.4	1.4	1.6	3.4	n.a.	101.6	3.5	1.2	4.2	2.8	111.4	104.4
October	1.1	n.a.	n.a.	101.9	1.9	1.6	3.4	n.a.	102.6	3.7	1.1	4.6	3.7	109.9	104.4
November	1.3	n.a.	n.a.	102.3	1.8	1.6	3.4	n.a.	103.0	3.7	0.9	4.9	4.3	112.9	104.4
December	1.1	n.a.	n.a.	102.0	1.5	1.4	3.2	n.a.	102.5	3.6	1.0	4.5	4.3	113.4	104.4
January 1998	0.5	n.a.	n.a.	99.9	1.6	1.2	1.6	n.a.	102.2	3.5	0.8	4.6	4.3	113.4	104.4
February	0.7	n.a.	n.a.	100.7	1.6	1.3	1.7	n.a.	101.8	3.4	0.7	5.0	4.3	113.2	104.4
March	0.8	n.a.	n.a.	100.8	1.7	0.9	1.7	n.a.	102.0	3.5	1.1	6.3	113.2	104.4	104.4
April	1.0	n.a.	n.a.	100.9	1.8	1.0	1.8	n.a.	102.2	3.6	1.0	6.3	113.2	104.4	104.4



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## War crimes: the UN finds the courage for convictions

The United Nations is planning to set up a permanent international criminal tribunal, but, asks **Laura Silber**, will it be effective?

United Nations is gearing up to meet a growing world demand for justice, with plans on the table for the first permanent international criminal tribunal and discussions under way on a possible court to try genocide suspects from Cambodia.

Although the UN has come under fire for failings in its peacekeeping operations and sanctions policies, the world organisation's judicial function has never been stronger - with international tribunals now making their first convictions for atrocities in Rwanda and the former Yugoslavia.

"Experience has showed that a system of international criminal justice is possible and that credible institutions can be created," says Jelena Pejic of the Lawyers' Committee for Human Rights, a human rights watchdog group.

Delegates from 150 countries hope to build on the experience of these two land-

mark tribunals when they hold a treaty conference in Rome next month to establish a standing international criminal court to try genocide, war crimes and other crimes against humanity.

The delegates remain divided over a host of issues, such as the scope of the prosecutor's powers, the role of the Security Council and the extent to which crimes committed in internal conflicts would be under the court's jurisdiction. Since none of the UN's 185-member states has opposed the court, its creation seems a certainty - what remains in question is how effective and independent the tribunal will be.

Diplomats at UN headquarters are also weighing a US proposal to the Security Council to establish a tribunal for Cambodia which would bring to justice the leaders of the Khmer Rouge held responsible for the killing of more than 1m people from 1975-1979. Pol Pot, who

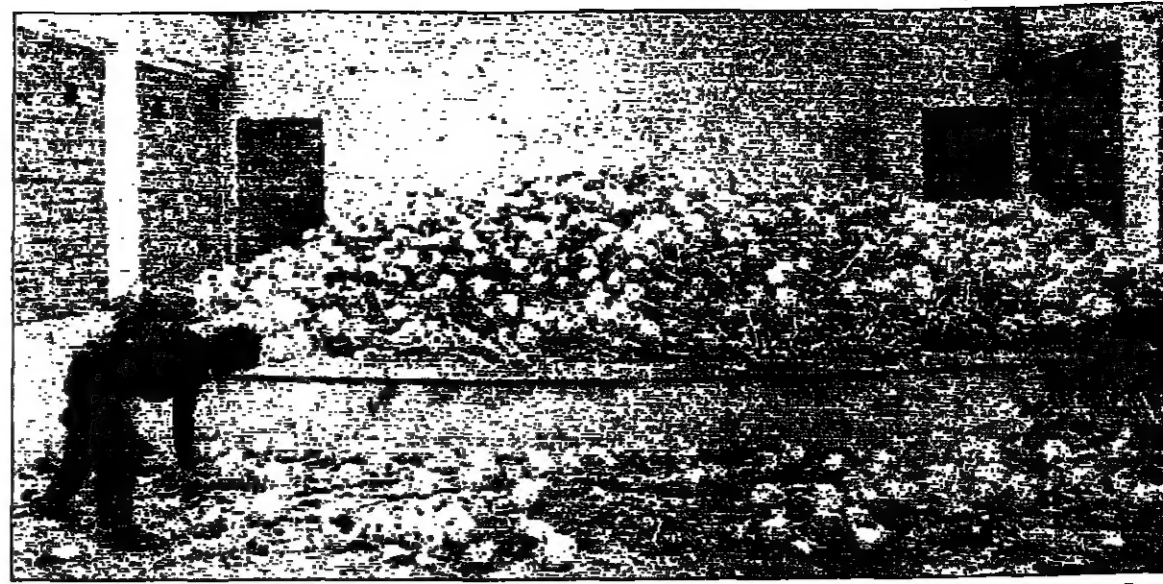
led the bloody regime, died last month but several of his senior aides remain at liberty.

The US draft resolution calls for the tribunal to operate in The Hague, alongside the UN court for former Yugoslavia, which was created in 1993. Louise Arbour of Canada is the court's chief prosecutor and holds the same position for the Rwanda tribunal, whose seat is in Arusha, Tanzania.

The 15-member Security Council has yet to agree to give life to the Cambodia court. Diplomats say that of the five veto-wielding permanent council members, China, which opposes outside intervention into domestic affairs and also aided the Khmer Rouge, is against it - saying Phnom Penh should hold a possible trial.

In the run-up to Cambodian elections even supporters of the new tribunal wonder if the court might increase instability in the strife-torn country.

Proponents of the permanent tribunal say the request for the Cambodian court drives home the importance of their cause. "It starkly



A former refugee places skulls on a platform in a former village school in Cambodia, an execution site under the Pol Pot regime. Reuters

underlines the need for the creation of a permanent tribunal," says Ms Pejic.

"Such a tribunal could have dealt with the events as they were unfolding. The Security Council could be paralysed in reacting to egregious crimes, as evidenced by China's opposition to the Cambodia tribunal," she added.

Setting up the ad hoc tribunals was an arduous task. The Rwanda court, dogged by serious administrative and procedural problems, was even derided as a "travesty". A recent UN report

notes a slightly improved record but still criticised management of the tribunal.

It may be boosted after Jean Kambanda, the former Hutu prime minister of Rwanda, on May 1 pleaded guilty to six counts of genocide and crimes against humanity in his first appearance in the court. Critics said Mr Kambanda's admission was prompted by the public execution of 23 Rwandans - the international tribunal does not have a death sentence. More than 100,000 mostly Hutus have been detained on charges of geno-

cide and may face a similar fate.

Amnesty International, a human rights lobby group, also protested against the detention of Mr Kambanda in a "safe house" rather than in the Arusha prison, which could have put him under pressure.

The court for former Yugoslavia has a much better record. The success of that tribunal (as will that of the proposed permanent court), however, hinges on the compliance of states in handing over indicted criminals to The Hague.

tion from Britain. Gabrielle Kirk McDonald, tribunal president, this week warned that unless a third court room is completed, some of the suspects in custody will have to wait until the year 2000 to have their day in the dock.

It is too early to determine whether the courts have helped reconciliation. John Bolton, an assistant secretary of state under President Bush who is a staunch opponent of the proposed permanent tribunal, believes that the ad hoc tribunals can undermine the process. "There are plenty of situations where the search for justice can often be retributive and does not necessarily contribute to the search for a political solution," he said, adding that it can give nations an excuse to avoid taking responsibility for their crimes.

He believes that tribunals should be set up on a case-by-case basis. But its supporters caution that a permanent court is necessary to avoid selective justice. "Why Cambodia, Yugoslavia, and Rwanda and not Argentina, Liberia and Iraq," asked Ms Pejic.

"There cannot be a trade-off between peace and justice. Enduring peace can only be based on reconciliation which rests on justice. The alternative is cycles of revenge."

## Mideast peace effort stymied

By Rania Khalef in London and Judy Dempsey in Jerusalem

The US yesterday failed to break the 14-month deadlock in the Middle East peace process after Madeleine Albright, US secretary of state, held an unexpected meeting with Yasser Arafat, president of the Palestinian Authority in London.

The meeting, called late on Sunday night when Mr Arafat was attending a Socialist International meeting in Oslo, followed two rounds of talks between Mrs Albright and Benjamin Netanyahu, Israeli prime minister, in Washington last week.

The US wants Israel to accept a package involving the handover of 13 per cent of land to Palestinian control as part of a second Israeli troop pullback from the West Bank. In return, the US said it would support the acceleration of final settlement talks. These talks will focus on the future status of Jerusalem, the Jewish settlements, and will for the first time define Israel's borders.

The Palestinians have accepted the US proposals, although they had at first

been expecting about 30 per cent of land to be handed over in the second redeployment.

Mr Netanyahu has insisted on handing back about 9 per cent on the grounds any more would jeopardise Israel's security.

Mr Netanyahu went on the defensive last night, denying Israeli media reports that he intended to hand over 13 per cent. "I did not agree to 13 per cent. This is not true," he said during a hastily convened press conference minutes before the ceremony to inaugurate Ezer Weizman as president for a second term.

"We advanced the peace process [in Washington] but there was no breakthrough this time," said Mr Netanyahu, clearly anxious to reassure his nationalist coalition partners that he did not cut any deal behind their backs.

Mr Netanyahu wants to postpone a third and final troop pullback until the start of the final settlement talks, even though in the Hebron 1997 agreement, the Israeli prime minister agreed to carry out the three pullbacks "not later than mid-1998."

### NEWS DIGEST

#### EGYPT PRIVATISATION

### Sale of first state bank postponed for three years

Egypt has postponed plans to privatise one of the four largest state-owned banks for at least three years, in spite of statements suggesting it would sell one of the banks this year.

Youssef Boutros Ghali, minister of economy, told parliament that legislation allowing bank privatisation would not be invoked before 2001. Earlier this year the government had suggested it would issue shares this year in one bank - expected to be the Bank of Alexandria. Mr Boutros Ghali said that "unstable world markets" had led the government to back down from the bank sale.

Kamel el-Genzouri, the prime minister, recently stated that the aim of selling a stake in a public sector bank would be to create competition between it and the remaining three state banks. The aim was not simply to undertake the privatisation of a state bank, but to allow it to exploit a degree of foreign shareholding which would energise the banking sector.

The postponement reflects an increasingly ambiguous attitude within the government towards privatising banks. Mark Hubbard, Cairo

#### OSTEOPOROSIS TREATMENT

### Drug may help fight cancer

Bi Lilly's drug for osteoporosis may be effective in treating breast cancer and heart disease, according to trial results released yesterday. Raloxifene, synthetic oestrogen replacement therapy marketed under the name Evista, showed a 70 per cent reduction in the incidence of newly diagnosed breast cancer in a study of 7,705 women. The drug also reduced cholesterol levels, a leading risk factor for heart disease.

Evista is being marketed to post-menopausal women who are candidates for oestrogen replacement but do not want such therapy's side effects, which include continued menstruation. Victoria Griffith, Boston

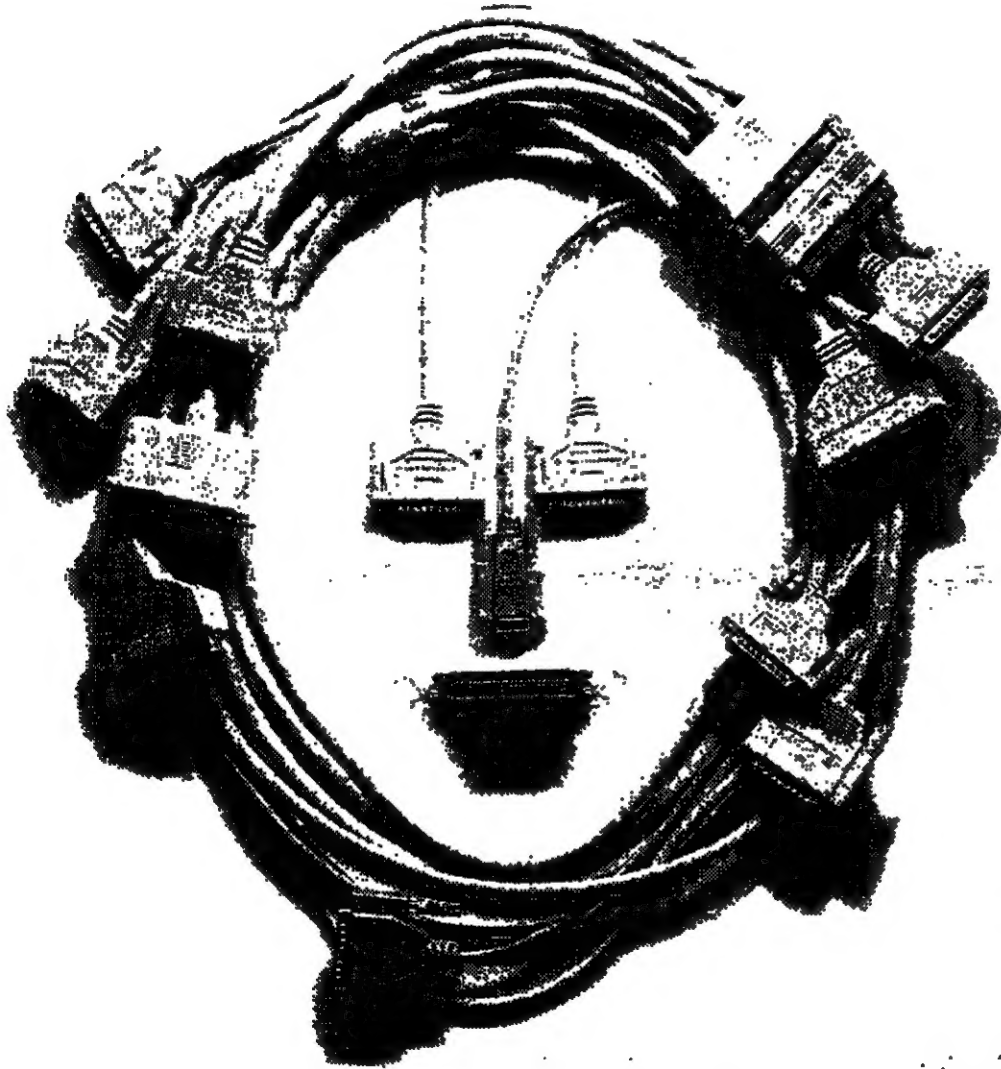
#### BIOTECHNOLOGY PATENTS

### Cancer gene dispute settled

A legal dispute between two US biotechnology companies, Oncor and Myriad Genetics, over patent rights to the two breast cancer genes, BRCA1 and BRCA2, has been settled.

Oncor will withdraw from the provision of breast cancer testing services and hand that business to Myriad, which will in effect have a monopoly over BRCA1 and BRCA2 testing in the US. But the two companies will continue to compete in the development of diagnostic kits and cancer treatments based on the two genes - potentially a far larger business than testing services. Clive Cookson, London

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# Companies welcome deal on US sanctions

By David White in Madrid, Robert Graham in Paris and Stefan Wagstyl in London

European companies and governments broadly welcomed the US-EU deal to head off US sanctions over trade with Iran, Libya and Cuba. The Spanish government, one of the most vehement opponents of US measures against investments in Cuba, said it was "very satisfied" by the agreement.

Total, the French oil group with plans for oil developments in Iran, said: "This moves things in the right direction." The sentiment was echoed by BP and Shell.

News of the deal came as a relief to Spanish companies which have recently headed the list of EU investors in Cuba, with investments of more than \$100m there.

Sol Melia, Spain's largest hotel group and Cuba's biggest foreign operator, was reluctant to comment on the

deal but said: "Cuba is going wonderfully."

The family-controlled group was alarmed two years ago when it found itself on the US target list under the Helms-Burton law, which penalises foreign companies using property in Cuba expropriated from US citizens.

The group, which went into Cuba in 1980, recently agreed to add four more five-star hotels to its Cuban chain, making a total of 12.

A delegation from about 70 Spanish companies visited Cuba last month to look into investment openings. Spanish business is hoping to capitalise on a recovery in official relations between Spain and its former colony, following a crisis in 1996.

Spain has already lifted itself into the position of Cuba's leading European trading partner, with Spanish exports to the island running at \$400m a year.

Total was more measured in its response. Thierry Desmarest, chairman, has long expressed confidence that a political solution could be found to the "extra-territorial" Iran-Libya Sanctions Act (ILSA).

Last September Total led a consortium which signed a deal with Tehran to invest \$2bn in two offshore blocks in the gas-rich South Pars field facing Qatar in the Gulf. Total held a 40 per cent stake while Russia's Gazprom and Malaysia's Petronas each had 30 per cent.

"We are still in the pre-engineering phase of the project," Total said yesterday. Although the threat of US sanctions has hung over the project for eight months, planning has gone ahead regardless.

Total has throughout received the backing of the French government, which has vigorously challenged

the right of the US to claim extra-territorial jurisdiction to punish companies investing in the "rogue" states of Iran and Libya.

The composition of the consortium also limited the likelihood of a real challenge to the deal. Both Malaysia and Russia had opposed ILSA, arguing that this was not an effective way of punishing countries backing terrorism. French officials said

imposing sanctions on companies investing more than \$40m in Iran risked being counter-productive at a moment when Tehran appeared anxious to normalise relations with the main industrial nations.

BP, which was founded on Iranian oil, has no active interest in any Iranian project, including South Pars. But it has opened a representative office and is looking

for possible investments. Shell reacted cautiously, saying it was studying the agreement to assess the impact on its business. Shell has a stake in the South Pars project, but only in its later stages which involve constructing a gas pipeline to Pakistan. It has a small additives business in Iran and trades in Iranian oil.

See Editorial Comment



Clinton and Gore address a press conference in London yesterday after EU and US negotiators agreed a settlement in the sanctions dispute

# Clinton urges new, faster trade round

By Gerard Baker in Geneva

US President Bill Clinton yesterday urged governments to move speedily to a new round of trade negotiations within the World Trade Organisation, beginning next year with discussions on agriculture followed quickly by talks on services and industrial tariffs.

But Mr Clinton warned that successful negotiations required governments to ensure their citizens had full confidence in a more open trading system. He proposed that the WTO should therefore open its doors to outsiders in the form of a new forum consisting of business, labour, environmental and consumer groups who to give their views on trade negotiations.

"The WTO was created to lift the lives of ordinary citizens; it should listen to them," he told the opening session of this year's ministerial conference of the organisation. In a speech commemorating the 50th anniversary of the start of the multilateral trading system, Mr Clinton addressed an audience that included Fidel Castro, the Cuban president.

To speed up negotiations Mr Clinton suggested the next round should be conducted on a sector by sector basis, rather than the comprehensive approach favoured by negotiators in the past. "In an era in which product life cycles are measured in months, and information and money move

around the globe in seconds, we can no longer afford to take seven years to finish a trade round, as happened during the Uruguay Round," Mr Clinton said. "There must be a way to tear down barriers without waiting for every issue in every sector to be resolved before any issue in any sector is resolved."

Mr Clinton promised once again that he would ask the US Congress for "fast track" authority to negotiate international trade agreements. Last year the Congress declined to give fast track authority to Mr Clinton, who is the first president in more than 30 years to have been denied it.

The President's emphasis on labour, environment and social issues was directed principally towards his political constituency at home, especially his fellow Democrats, many of whom are opposed to trade deals that do not involve tough standards for labour and environmental protection. Engaging ordinary people in the advantages of international trade is a critical element of Mr Clinton's approach to the political challenge of increasingly globalised business activity. Mr Clinton also called on countries to freeze tariffs on all electronic transmissions across borders. "We cannot allow discriminatory barriers to stunt the development of the most promising new economic opportunity in decades," he also urged more openness at the WTO.

# Ruggiero offers olive branch on environment

By Frances Williams in Geneva and Leyla Bouillon, Environment Correspondent

Renato Ruggiero, director-general of the World Trade Organisation, yesterday promised more dialogue with environmental groups to allay their fears that world trading rules threaten the environment.

In his opening address to the WTO's second ministerial meeting in Geneva, Mr Ruggiero acknowledged that the WTO's committee on

trade and environment, which has spent three years discussing trade-environment links without any tangible results, needed "a renewed political impetus".

His olive branch coincided with an avalanche of attacks by environmentalist groups yesterday.

The Worldwide Fund for Nature, which has promoted successful voluntary schemes for labelling sustainable timber and fish imports, said decisions by WTO dispute panels - most

recently in the shrimp-turtle case - threatened to undermine the legitimacy of the international trading system in the eyes of the public.

Britain's Royal Society for the Prevention of Cruelty to Animals said that extensions to trade rules "had been interpreted narrowly by panels and applied in a manner that has started to undermine measures taken to protect high welfare standards".

It noted that an EU decision to ban fur imports from

animals caught with leghold traps had been weakened by a deal struck with Canada and Russia by the European Commission to allow their continued use in some circumstances.

European member states had also failed to implement a ban, due to have come into effect in January, on the use of animals to test cosmetics.

Finally, the Commission had been unable to persuade ministers to adopt its proposal setting minimum standards for battery hens' living

conditions. The proposals would have increased the price of eggs in the EU.

The RSPCA said there were two main trading obstacles to raising animal welfare standards. Unless import taxes and tariffs were adjusted accordingly, more ethically produced goods would be unable to compete with cheaper imports.

Most importantly, discrimination among products on the basis of how they are produced is prohibited by WTO rules.

The RSPCA urged governments to consider introducing "tariff and tax adjustments" for raising the price of imports that fell foul of such standards. It also said they should offer improved market access to third country producers that met such standards.

Sir Leon Brittan, European Union trade commissioner, has called for a high-level meeting to break the logjam, an initiative that has been backed by the US, Japan and Canada.

# Brussels heads for clash over genetic labelling

By Michael Smith in Brussels

The European Commission is heading for a clash with European Union nations unless it heeds a call from them yesterday to change a controversial proposal on the labelling of genetically modified soya and maize.

Ministers from 12 of the 15 EU countries indicated yesterday they were unhappy with the Commission's plan to label foods if they "may contain" genetically modified organisms, with some arguing it would be of little use to consumers.

They supported a proposal by the UK, holder of the EU's rotating presidency, that foods should only carry a compulsory label if definitely proved to contain genetically modified organisms.

The presidency said it had asked the Commission to reconsider its proposals because there was a qualified majority for change. It

hopes for an answer by tomorrow.

Under EU procedures, the Commission is able to overrule countries on this issue unless there is unanimous opposition from them. The danger of doing that is that it would alienate countries which would, in any case, be unlikely to enforce the proposals rigorously.

The Commission's proposals have been widely criticised by consumer and environmental organisations, which say they provide so many exemptions that they are unlikely to help food buyers determine whether the products contain genetically modified organisms.

Greenpeace, the environmental group, and Beuc, the European consumers' organisation, want enforced separation of modified and conventional crops. The US, where most modified crops are grown, opposes this, and there is little support from EU member states.

Beuc said yesterday that if the presidency's proposals were adopted, the regulation would apply to even fewer crops. Some 60 per cent of processed food contains soyabean derivatives; many others contain maize derivatives.

The directive's effects would be limited to maize and soya, but are seen as setting a precedent for other genetically modified crops, production of which is growing rapidly. The UK presidency's plan was supported by all countries except Sweden, Denmark and Italy.

As well as dropping the Commission's proposal for "may contain" labels, it would lead to the drawing up of a list of products which would not be subjected to labelling requirements.

The Commission could consider the presidency's request to reconsider its proposals tomorrow but may do so next week.

# Counterfeiting seen as threat to share prices

By John Williams, Consumer Industries Editor

Counterfeiting of branded products such as drinks, designer clothes and luxury goods is a threat to the share prices of some of the world's biggest consumer groups, according to a survey of investment analysts and fund managers, published today.

The survey, carried out by CDR International, a UK-based consultancy on brand protection, found that a counterfeiting story affecting a company's brands was almost as big a threat as association with child labour or human rights abuses.

A quarter of the analysts and managers said a counterfeiting scare would have a bigger effect on market sentiment than results below expectations or the resignation of the chief executive.

A second survey published by CDR shows confusion among consumers over counterfeits. Most were unable to distinguish between genuine and fake logos for a selection of international brands such as Nike, Gucci and Bell's Scotch whisky. Most failed to distinguish between real and counterfeit goods. With designer jeans, for example, 70 per cent were unable to identify the genuine article.

The risk of buying a fake meant 72 per cent said they

would be put off buying a company's products if those had a reputation for being counterfeited. Yet the consumers in the survey were prepared to pay a third more on average for a branded T-shirt than a plain one.

More than 40 per cent said they saw no point in buying designer labels since most people would think they were fakes; 51 per cent said they would buy an imitation. More than 60 per cent believed they had seen counterfeit products in the past three months, rising to 81 per cent for under-30s. The brands most thought of as subject to counterfeiting included Nike, Calvin Klein, Rolex and Levi.

CDR found most marketing managers had failed to recognise the threat posed by counterfeiting. Modern security features such as holograms were used by only one in 10; only a handful had registered colours or proprietary technologies to protect them.

Holograms are now used by global spirits groups such as Diageo and Allied Domecq to deter counterfeiters. Developed by De La Rue Brand Protection, a subsidiary of the UK printing group, the 3-D holographic image on the shrinkwrap seal is almost impossible to copy, and an attempt to tamper with the bottle is hard to conceal.

# US to hold corn syrup inquiry


By Stephen Fidler in Washington

The office of the US Trade Representative yesterday announced it would launch an investigation into allegations that unfair trade practices in Mexico were harming US exporters of high fructose corn syrup, the sweetener used extensively in the soft drinks industry.

The decision responds to a complaint from the Corn Refiners Association under Section 301 of the Trade Act of 1974. The complaint claims that in September 1997, "with the support of the government of Mexico", representatives of the Mexican sugar industry and the country's soft drink bottlers agreed to limit the soft drink industry's consumption of corn syrup.

The US refiners say practices in Mexico deny fair and equitable market opportunities for exporters of corn syrup. "This petition raises serious allegations to be investigated," Charles Barshefsky, US Trade Representative, said. The US will ask for immediate consultations with Mexico.

Section 301 investigations allow business and workers in the US to seek government aid in response to alleged unfair trade practices. Investigations must be completed within 18 months.



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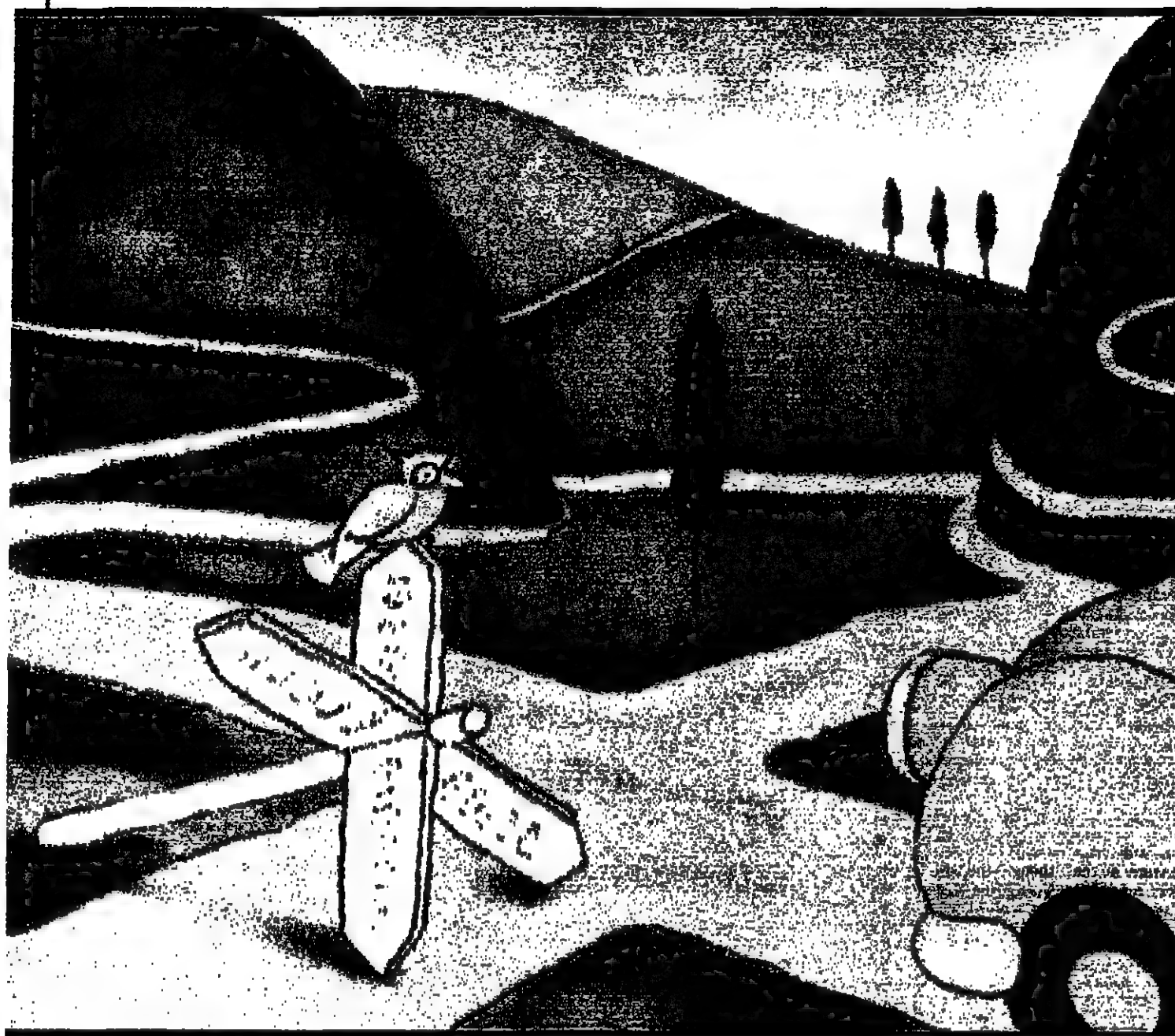
fig. 1  
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Remember.



fig. 2  
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fig. 3  
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## BRITAIN

TRANSPORT DEPUTY PREMIER LOOKS READY TO APPROVE LOWER-PRICED PROPOSAL BY CONSORTIUM

## Channel rail link set for rescue

By Jonathan Ford and George Parker

John Prescott, the deputy prime minister, yesterday looked set to approve a rescue package for the Channel tunnel rail link after receiving a cut-price proposal from the project's backers. The tunnel runs between England and France.

Under the new offer, London and Continental Railways is thought to be asking for an extra subsidy of between £600m (£1bn) and £900m, compared with the £1.2bn rejected by Mr Prescott in January.

The consortium was asked by the government to bid a range of subsidies because of the uncertainty surrounding the future financial performance of the Eurostar high-speed train service. Should Eurostar's revenues grow more quickly than expected, this would allow the government to reduce its subsidy contribution - most of which is paid towards the end of the project.

LCR is also understood to have withdrawn its demand for 10 years to build the link, and is now understood to be aiming for a completion date of 2007. Mr Prescott will

spend the next few weeks examining the revised proposals, in consultation with Geoffrey Robinson, a Treasury minister.

Government officials handling the project have been in close contact with LCR over the last few months, and have made clear what Mr Prescott expects. Officials believe it is unlikely the consortium would waste huge amounts of effort in drawing up a plan which Mr Prescott would veto.

Although the extra government subsidy remains substantial, the government would be left with a £900m

bill if the project collapsed, comprising £400m of accumulated LCR debts and £500m associated with the loss-making Eurostar service.

However there are still expected to be hard negotiations on the details of the LCR package, including the key questions of the level of government subsidy, and on the completion date for the 68-mile link from the tunnel to St Pancras, London.

LCR had been given until the end of this month to come up with a new financing package. Its first attempt fell apart in January when

the government turned down a request for a further £1.2bn of public subsidy on top of the £1.2bn already agreed. Under the new plan, LCR would build the £5.4bn link in two stages with financial assistance from Railtrack, the UK rail infrastructure group.

Eurostar would be operated by a consortium led by National Express, the coach and train operator, and British Airways, or by Richard Branson's Virgin Group. The National Express/BA proposal envisaged Eurostar trains being run to London's Heathrow airport.

## Delay by Treasury taxes patience of offshore industry

Oil sector opposes radical fiscal change but wants an end to uncertainty, reports Robert Corzine

The offshore oil industry is becoming increasingly frustrated waiting for the government to produce its consultation document on new taxes. The document was due last month.

"We're getting no feedback from the Treasury," says James May of the UK Offshore Operators Association, the trade group for the 37 companies that explore and produce oil and natural gas in UK waters.

In recent months, companies have deferred some projects because of uncertainty over taxes and low oil prices. Executives warn that the UK's attractiveness as a destination for investment is being undermined by uncertainty at a time when low crude prices threaten to dampen capital expenditure on new oil and gas projects.

The industry was joined in March when the government - which expects to receive £3.5bn (£5.94bn) from offshore taxes in the 1997-98 tax year - declared the present arrangement to be "unsatisfactory". Many companies had hoped that low prices would deter ministers from tinkering with the tax regime.

But in the last Budget, the

Treasury put forward two alternatives to the present system, under which developers of new fields pay corporation tax at the standard 30 per cent.

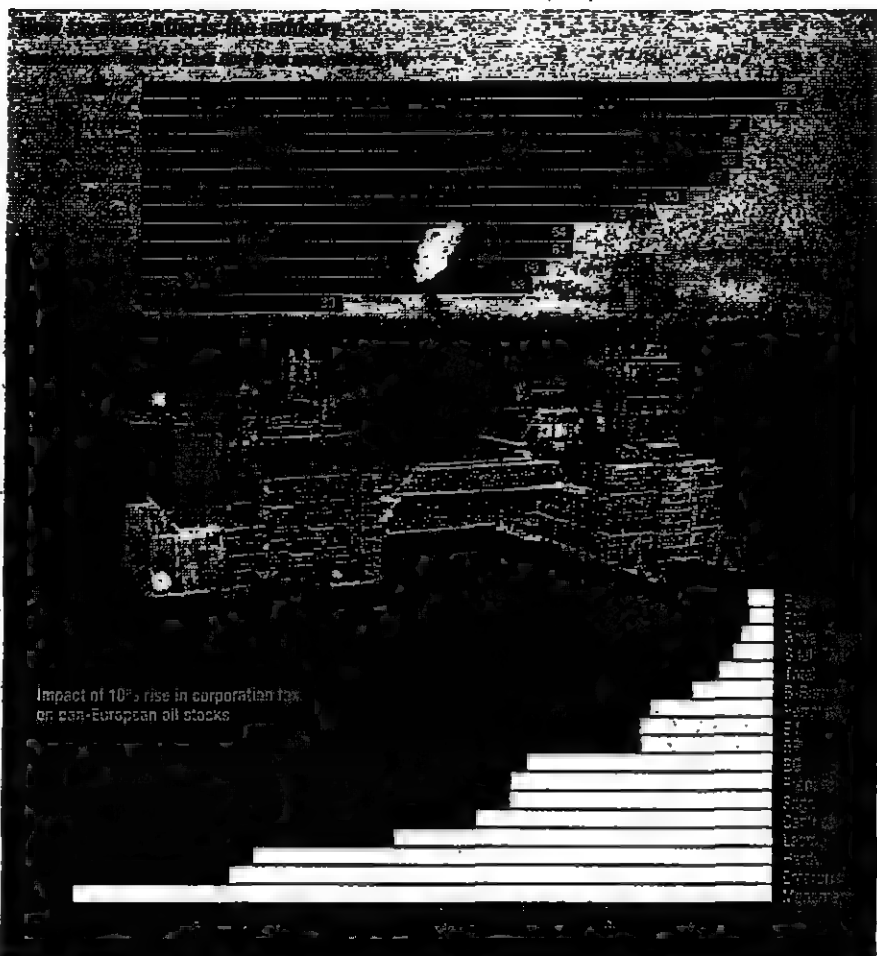
One involves the imposition of a supplementary corporation tax. The other option called for the re-introduction of a profits-based petroleum revenue tax, which had been abolished for new fields in 1988.

The impact of the new taxes would vary widely between oil companies, prompting some observers to speculate that ministers wanted to divide the industry, which had maintained an unusually united front in the run-up to the Budget announcement.

In recent weeks, the industry has kept up its lobbying effort to dissuade the government from making radical changes. This week UKOIA wrote to Tony Blair, asking him to task remarks made in the House of Commons last week when the prime minister said the UK oil industry enjoyed an "enormously favourable tax regime".

UKOIA countered that the average tax rate in the sector was 45-50 per cent, rather than 30 per cent for new projects, and that the rate on some fields was as high as 69 per cent.

Analysts at Petroconsultants, a Geneva-based industry group, agree that the "current UK fiscal system is



the most investor-friendly of virtually all 120 global regimes analysed". But there is also evidence that it has succeeded in attracting new investment and maintaining relatively high levels of activity in the industry, even though the size of average North Sea discoveries has fallen steadily.

The UK regime is especially attractive when viewed against Norway, where the total "state take", which includes direct state participation in offshore projects, is just over 50 per cent.

But as Steve Parish at Petroconsultants notes, the UK is not just competing with Norway. "It is competing for global capital that could just as easily go to Angola or Argentina."

Given that the oil industry accounted for 16 per cent of total industrial investment last year, ministers are expected to be careful in setting a new tax regime. In recent weeks, officials have reviewed in detail the two proposals to ensure that the numbers "are robust in the light of current circum-

stances", according to one industry expert.

Oil men appear confident that their detailed analysis of the sector shows little or no spare "taxable capacity". But executives admit that the government might disagree about the impact of higher offshore taxes on jobs. The worst outcome, they say, would be if the consultation document is heavy on political justification for new taxes, but light on the rigorous financial analysis they say is needed to justify any tax rise.

## Petrol market spared monopolies referral

By Samir Malik in London

John Bridgeman, the UK's director-general of fair trading, yesterday ruled out a fourth referral of the petrol retail trade to the Monopolies and Mergers Commission, saying that competition was "fierce" and favourable for British consumers.

Mr Bridgeman said his review had not found evi-

dence of predatory or collusive behaviour by big retailers that was "intended to remove independent rivals".

The report acknowledged that competition between supermarket and oil company forecourts had squeezed some independents out of the market. "Competition promotes market efficiency, keen prices and consumer choice but inevitably

results in winners and losers... I do not believe that lower prices indicate predatory behaviour," said Mr Bridgeman.

The past eight years have seen pump prices fall by about a third in real terms, excluding duty and value added tax. The report said supermarkets' pricing reflected a low cost base and competition with other

supermarkets. Mr Bridgeman said the 40 per cent drop in the cost of crude oil in the 18 months to March 1998 had had a minimal effect on pump prices, which were largely determined by tax and distribution costs.

Since the last MMC investigation in 1990, which also concluded that the industry was competitive and operating in the public interest,

supermarkets' share of the market has grown from 5 per cent to 22 per cent.

The Petrol Retailers Association criticised the report for not reflecting the current position of the petrol retailing market. It said consumers in rural areas faced high prices and extensive closures. "They have missed a big opportunity to help consumers get a better deal."

## Arms-to-Africa company 'told of UN embargo'

By Andrew Parker and Jimmy Burns

Sandline, the British military consultancy, was told in January that shipments of weapons to anyone connected with Sierra Leone would breach the United Nations arms embargo. Robin Cook, the foreign secretary, told the House of Commons yesterday.

The meeting, held nearly two months before West African forces toppled a rebel government in Sierra Leone, was disclosed as Mr Cook announced the appointment of a retired civil servant to head an independent inquiry into the affair.

Mr Cook said the inquiry would begin immediately as Customs and Excise announced it would not recommend prosecution of Sandline International, the British company accused of breaching a UN embargo by supplying arms to Sierra Leone.

Mr Cook said that lieutenant-colonel Tim Spicer, chief executive of Sandline, met Foreign Office officials in London to discuss Sierra Leone on January 19. At that meeting was Craig Murray,

deputy head of the FO's Africa desk. However, it was not until February 18 that officials alerted Customs to Sandline's activities. Sandline insists that its activities were approved by the government, and did not violate UN security council resolutions.

Mr Cook's decision to appoint Sir Thomas Legg, former permanent secretary at the Lord Chancellor's department, to head the independent inquiry was attacked in the Commons. The Lord Chancellor is the senior government law officer.

Menzies Campbell, the Liberal Democrat foreign affairs spokesman, said Mr Cook should have gone outside Whitehall and appointed a judge. He also claimed Tony Blair, the prime minister, had undermined the Customs probe by dismissing the arms to Africa affair as a "hoax".

Mr Cook rejected a call by opposition Conservatives for the inquiry to be held in public. The inquiry will establish what was known by ministers and officials about plans to supply arms and whether there was any official encouragement.

## MPs clear Boeing helicopter in crash

By Jimmy Burns and Liam Halligan

A House of Commons defence committee yesterday said it had found no "compelling evidence" that technical failure was the cause of the 1994 Chinook crash in which 25 senior intelligence personnel died on the Mull of Kintyre on the west coast of Scotland.

The MPs also accepted the reported assurances by the manufacturer of the helicopter, Boeing, that there was only a minimal risk to flight safety in the event of "de-bonding" between key components and the flight control panel.

"While we make no judgment on the immediate causes of the crash... we conclude, on the basis of the evidence presented to us, the Chinook Mark-2 fleet appears to be operating reasonably safely and reliably," the committee concludes in a report published yesterday and welcomed last night by the Ministry of Defence. However, the committee refused to endorse the findings of an RAF Board of Inquiry which blamed the two pilots who died in the crash.

## Law firm wins fight for German alliance

By Robert Roca, Legal Correspondent

S. J. Berwin & Co, the City law firm, yesterday won the battle for German law firm Knopf Tulloch & Partner, stealing the specialist private equity adviser from under the noses of its London rivals. The firm is to form an exclusive alliance to exploit the growing German and European private equity market.

The move underlines the determination of the UK's leading commercial law firms to gain a significant share of the lucrative German legal services market.

It follows the announcement this year of an alliance between Freshfields, the UK international law firm, and Germany's Deringer Tassin Harmann & Sedemann.

Knopf Tulloch, a multi-disciplinary partnership of tax advisers, lawyers and accountants, based in Frankfurt, has built a considerable reputation advising the private equity industry in Germany since it was formed eight years ago as a break-away from accountants Arthur Andersen.

Among its private equity clients are 3i, ABN Amro, UBS Capital, Alpinvest, Legal & General and Cadogan. The firm had been wooed by several of the UK's leading private equity legal advisers, among them the market leader, Ashurst Morris Crisp. Ashursts has recently opened an office of its own in Frankfurt.

S. J. Berwin, which has one of the strongest private equity practices in the UK, identified Knopf Tulloch as a merger target from research carried out for it by London Economics. The firms are prevented from entering into a full merger at this stage by Law Society rules which prevent solicitors (lawyers) entering into multi-disciplinary partnerships. The Law Society is the governing body for solicitors in the UK.

David Harrel, S. J. Berwin's senior partner, said the firm saw significant opportunities in the German and European private equity markets.

In 1996 Germany was the most active continental European market for management buy-outs with a total transaction value of £1.2bn (£2bn). In the 10 years to 1996, Germany was also among the top four European destinations for MBO investment from UK sources.

According to German academics, there are about 700,000 family-owned Mittelstand companies in Germany which will be looking for new owners over the next 10 years. In addition, several big German companies, such as Daimler and Hoechst, have sold loss-making divisions recently to focus on core businesses and this trend is expected to continue. The private equity industry welcomed the link.

## NEWS DIGEST

## NORTHERN IRELAND

## Clinton appeals for Yes vote in peace referendum

President Clinton yesterday made an emotional appeal for a Yes vote in Friday's referendum on the Northern Ireland peace deal, urging the province to opt for hope over fear. "If I were an Irish Protestant, which I am, but living in Northern Ireland instead of the US, I would be thinking about my daughter's future and her children's future."

At a press conference after the summit between the European Union and the US in London, Mr Clinton warned unionists the risks of backing the agreement were much less than the risk of "having everything fall apart". Tony Blair, the prime minister, told the conference that the people of Northern Ireland faced an "amazing" future if peace could be achieved.

Meanwhile, a former senior official of the Protestant Orange Order has backed the Ulster peace accord, giving a badly needed boost to the Yes campaign. Warren Parker says in an article in today's Irish Times that the Stormont agreement represents "the lesser of two evils" and calls for fellow Orangemen in the 70,000-strong Loyalist organisation to back David Trimble, leader of the Ulster Unionists, the largest pro-British party. Liam Halligan, Belfast; David Wighton, London

## US MINE FRAUD

## Three convicted in London

Three businessmen were convicted at London's central criminal court yesterday on charges of conspiring to defraud shareholders who invested almost £30m (£50m) in the Butte Mining company, which was set up in the late 1980s to exploit mineral deposits in Montana in the US.

Clive Smith, the entrepreneur behind the ill-fated venture, John Clarke, a former Butte director, and Kenneth Clews, managing director of Robertson Research, a mining consultancy, will be sentenced on Thursday. A fourth businessman, Roy Bichen, a former non-executive chairman of Butte and former deputy chairman of the Welsh Development Agency, was acquitted of two fraud charges last week.

The trial of the three convicted men lasted 11 months and followed a three-year investigation by the Serious Fraud Office into the affairs of Butte Mining. John Mason, London

## MOBILE PHONE NETWORKS

## Auction may raise \$2.5bn

Licences to operate the next generation of mobile phone networks are to be sold next year in an auction which could raise up to £1.5bn (£2.5bn) for the government.

Barbara Roche, trade and industry minister, said yesterday that the new generation of mobile services - known as universal mobile telephone systems or UMTS - offered prospects for new jobs, services and investment in the UK. It is thought that between three and five licences will be awarded. The competition will be open to all-comers, UK-based or from overseas, subject only to a basic pre-qualification.

Today, Ms Roche chairs the European Union Telecoms Council at which a draft decision aimed at promoting UMTS in the EU will be considered. Alan Cane, London

## PRIVATE SCHOOLS

## Fear over ghettos of wealth

Britain's private schools are becoming increasingly exclusive, as rising numbers of upper middle-class families show growing dissatisfaction with the state education system, according to a survey published today by the Independent Schools Information Service.

The finding, from a poll of more than 700 parents by Mori, the market research company, raises fears that fee-paying schools could become ghettos of exclusivity long before the government's assisted places scheme, which offers subsidised places to children from poor families, is fully phased out in 2005. Simon Targett, London

## INVESTMENT

## Tax free scheme attacked

Benchmark standards for Individual Savings Accounts, the tax-free investment that will replace personal equity plans and tax-exempt special savings accounts next April, will "bring flexibility and peace of mind to the savings market", the government insisted yesterday.

But the proposals were savaged by some influential savings industry figures. "If the government proceeds with its current thoughts, it will ensure that benchmarked unit trust ISAs are sold in bucket loads," said Philip Warland, director-general of the Association of Unit Traders and Investment Funds. "But it will be economically illiterate, politically inept and lethal for some consumers." Joan Eaglesham, London

## No se lo pierda...

The European Commission and the Andean Community are organising the EURO-ANDEAN FORUM '98, a two-day economic event to promote co-operation, trade and investment between EU Member States and the five Andean Community countries: Bolivia, Colombia, Ecuador, Peru and Venezuela.

A rapidly growing "Common Market" of over 300 million consumers, the Andean Community today offers major opportunities for increased trade and investment. Just one of the many aspects of this is that, over the last seven years, foreign direct investment has increased at a rate of over 30-40 per cent, while intra-Andean investment has more than doubled.

The EURO-ANDEAN FORUM will be structured around six workshops exploring the following key sectors: agriculture and fishing; energy and mining; textiles, clothing and leather; metal processing; financial services; transport and tourism; and information technology.

The primary activities will be opened by Manuel Pérez, Vice-President of the European Commission.

Don't miss out... On one of the fastest growing regions in the world, the Andean Community and the Andean Peoples by trade and industry.

More than 200 people will attend the FORUM, including Foreign Trade Ministers of the Andean Community, top-level representatives of the European Commission, Trade Associations, Chambers of Commerce, media, business people and the media from both Europe and Andean countries.

This will represent a unique opportunity to gain specialist information, make direct contacts and to network for future dealings between the two Communities.

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## PEOPLE &amp; LAW

PROFILE TONY REIS, SWISSCOM CHIEF EXECUTIVE

## Veteran holds the line

William Hall meets a telecoms chief facing a tough challenge in Switzerland

Tony Reis, the new chief executive of Swisscom, has accepted a challenge that would doubt the management of the best run Swiss multinational, let alone the untested managers of one of Europe's last state-owned telephone monopolies.

At 56, an age when most of his former International Business Machines colleagues are practising their golf swing, Mr Reis has been given less than a year to transform one of Switzerland's most bureaucratic businesses into a shareholder friendly company that can be floated on the international stock market.

His task is complicated by the fact that Swisscom is for the first time facing serious competition in its home market, while the fast-changing alliances in the international telecommunications industry raise questions about the long-term survival of medium-sized national operators such as Swisscom.

Swisscom, which employs about 20,000 people, will be the first leading European telecommunications company to be floated since last January's liberalisation of the European market. The government gave approval for the flotation last week. Switzerland has a new regulatory system that is starting to make life difficult by ordering Swisscom to cut its interconnection charges to encourage new competitors.

Switzerland is a natural target for global telecommunications operators. It is the world's seventh biggest market in terms of international phone traffic. Its charges are among the highest, and there is an above-average density of high-use business customers in a few centres.

Swisscom owns one of the world's most modern digital telephone networks and it is one of the world's most efficient operators in terms of productivity ratios. But its technology is a temporary advantage in the face of financially strong competitors, such as British Tele-

communications and Deutsche Telekom, which are determined to win market share by cutting prices.

One of Mr Reis's first tasks has been to overhaul Swisscom's pricing strategy. Instead of cutting tariffs across the board, he is differentiating prices and even quality of services. He intends to move up the value chain by bombarding the market with services. "What business wants is solutions. This is what we are focusing on," says Mr Reis.

One example is a pilot project in Bern, which allows a driver to check via mobile phone the availability of parking in a car park. Mr Reis believes that Swisscom can win back customers in areas such as data services, not because it is less expensive than its competitors but because customers have discovered that service level goes with price. If there are "mission-critical applications" where a whole business depends on telecommunications, customers will be willing to pay a proper price, he argues.

It is early days but Mr Reis appears to be making an impact on a company traditionally renowned for its engineering prowess rather than its commercial skills. "The problems when a company changes direction are the same in IBM as in Swisscom," says Mr Reis.

Mr Reis, who joined as Swisscom's marketing chief in January 1997, has reshuffled his management team since his appointment as chief executive last January. Only two members of Swisscom's nine-strong top management remain from the days of the old Swiss PTT.

The 17 regional management centres have been cut to four, and services where Swisscom does not have a core competence are being outsourced. The organisation has been renamed Swisscom and its new corporate identity has been translated on to 13,000 public telephone cabins, 7,000 vehicles, and 350 buildings.



Tony Reis is optimistic about Swisscom's ability to compete

Swisscom is never going to sell itself to international investors as a growth stock. Nevertheless, it will have to continue growing to offset the impact on its SF10bn (\$6.7bn) a year revenues of lower prices and loss of market share. An important part of its growth strategy is its policy of "home market extension" into neighbouring regions whose combined population far exceeds Switzerland's 7m. It has started competing with Deutsche Telekom in the state of Baden-Württemberg in Germany, joined forces with Strasbourg's local electricity company to enter France's Alsace region, and will soon move into northern Italy.

Such moves are designed to carve a future for a medium-sized telecommunications company in an industry of emerging supranational carriers. But Mr Reis still needs to make sure that Swisscom backs a winner in the growing horse-trading over strategic international telecommunications

alliances. For the moment Swisscom's main thrust is via Unisource, along with Sweden's Telia, and the Dutch PTT, which works in partnership with AT&T. But it has proved to be a rather shaky alliance in terms of its shareholders.

Nevertheless, Mr Reis is upbeat about Swisscom's ability to compete alongside the leading companies in the industry. He sees greater differentiation between those who provide the network infrastructure versus those who provide the products and services that run on those infrastructures or highways. "You do not have to be the owner of a highway to be a very successful transportation company," he says.

The second reason for his optimism is that the global telecommunications market is becoming more complex. The name of the game will be managing complexity for customers. "It is not a question of size but a question of knowhow and trust," says Mr Reis.

## Sailer leaves UBS before merger with SBC

Urs Sailer, 48, one of Union Bank of Switzerland's most senior executives, is quitting ahead of UBS's merger with Swiss Bank Corporation, its smaller rival.

Sailer, responsible for country risk management, project finance and trade finance at UBS, had been offered the job of chairman of the emerging market activities in Europe, Africa and the Middle East, of Westbury Dillon Reed, the investment banking arm of the enlarged UBS.

However, he turned the post down because of "differences over the business approach" in his new area of responsibility.

The departure of Sailer, who has been with UBS for 14 years, is the latest sign of the growing dissatisfaction among UBS veterans at the way most of the top positions in the enlarged group are being reserved for SBC executives.

Anten Affentranger, 42, head of commercial banking and another member of UBS's enlarged executive board, has joined Lombard Odier, and Ulrich Grote, head of resources at UBS, has also quit.

Last week Gerhard Heinrich, 46, UBS's most senior banker in Germany, defected to Credit Suisse First Boston, and Jim McCaughan, chief executive of UBS Asset Management in the US, has joined Oppenheimer Capital, a unit of PIMCO Advisers, as president.

Politzer joins ING Barings

ING Barings, the investment bank owned by ING, has appointed Gabriel Politzer managing director and deputy regional head of emerging markets and high yield debt and derivatives for the Americas.

Politzer, 38, is joining ING Barings from Union Bank of Switzerland, which is merging with Swiss Bank Corporation. Based in New York, he was

managing director and deputy head of global emerging markets at UBS, focusing particularly on local markets in Latin America.

At ING Barings Politzer will lead the investment bank's local markets and structured products business in the Americas region. He will be based in New York and will report to Jose Berenguer, global co-head of the emerging markets and high yield debt and derivatives division.

"ING Barings has a long tradition of leadership in Latin American debt markets, and we are delighted that Gabriel is joining us to help build on our successes in the region," said Berenguer.

Turner appoints fund directors

Ted Turner, billionaire founder of CNN, environmentalist and spouse of Jane Fonda, and actress, has named the board of directors who will help him carry out his well-publicised pledge to give \$1bn to the United Nations.

Tomorrow the body he has set up to give the money away - the United Nations Foundation - will announce where the first grants will go.

The board will be headed by Turner, who turns 60 this year. It also comprises Ruth Cardoso, Brazil's First Lady and a noted academic; Emma Rothschild, London-born economic historian and fellow of King's College, Cambridge; Maurice Strong, secretary-general of the 1992 Earth Summit and long-standing Canadian government official now active in business; Timothy Wirth, a former US senator from Colorado and US under-secretary of state for global affairs from 1993-97; Andrew Young, former top aide to Martin Luther King, President Jimmy Carter's ambassador to the UN and two-term mayor of Atlanta; and Mohammad Yunus, founder of Bangladesh's Grameen microfinance initiative.

Wirth will manage the operations of the foundation, which will have offices in Washington and New York. Stephen Fidler

Moving places

● Andrew Feldman is joining Rabobank International as head of investment banking for the Americas, based in New York. He is moving from Chase Manhattan, where he was head of derivatives marketing in the Americas.

● Stephen Lui has been appointed director and vice-president - China/Korea, SMITHKLINE BEECHAM INTERNATIONAL. Lui has held many positions in the pharmaceutical industry. In 1996 Lui founded his own consultancy for developing non-competitive opportunities in Greater China, while at the same time he continued his involvement with Zanecca China as non-executive vice-chairman. He is currently the chief representative of the China Britain Trade Group for Southern China and is vice-chairman of the British Chamber of Commerce in Hong Kong and chairman of its China Committee.

● MONSANTO has recently announced that Bernard Auzanet, currently executive vice-president and general

manager of the agricultural sector, will assume additional responsibilities as chief operations officer, Monsanto Ag Sector, and co-president, Europe/Africa World Area, Monsanto.

● ANDERSEN CONSULTING has promoted William Green to global managing partner for its newly-formed resources market unit.

● Niels Conradson, 39, has been appointed group sales and marketing director of REGUS, Europe's largest operator of fully serviced business centres. He was formerly head of sales for TNT Worldwide.

● IOMEGA CORPORATION has announced the appointment of Jim Taylor as executive vice-president, global sales and marketing, and William Hake as vice-president, Worldwide OEM sales. Taylor was corporate senior vice-president and president, marketing services at Gateway

2000. Hake joins Iomaga from Seagate Sales and Technology Corporation.

● HARLEY-DAVIDSON has appointed John Russell vice-president and managing director for Europe, Russell, a former director of Rover Group, will have responsibility for all of the company's business activity in Europe, the Middle East and Africa. In 1996, Russell resigned from the Rover Group to lead a team of Warwick University consultants on a turnaround project for India's largest textile mill.

● Barbara Bufdin has been named head of a new privatization business development group formed by Swiss Re New Markets Corporation. Bufdin is a Dallas-based director of Swiss Re New Markets and chief executive of the Facility Insurance Corporation, a recently privatised workers compensation insurance facility based in Austin, Texas.

BUSINESS AND THE LAW

UK firm in landmark public securities deal

Allen & Overy has broken a US stranglehold on advising underwriters, says Richard Forster

After a well-documented propaganda war between US and UK law firms, Allen & Overy has become the first UK international law firm to complete a public securities deal in the US advising a group of US underwriters.

The global issue of \$500m 6.2 per cent global notes due 2003 by Bear Stearns and launched on March 21, marks a psychological breakthrough in the battle for international securities work.

The global note issue, which was registered with the US Securities and Exchange Commission (SEC) and listed in London and Hong Kong, has broken the mould for UK firms.

Jeffrey Golden, head of the US law group at Allen & Overy, said: "The underwriters are properly characterising the Bear Stearns notes as 'global'. One jurisdiction did not have a monopoly on all the relevant issues.

"The fact that we could cover US, English and Hong Kong law advice under one roof proved to be a tremendous advantage.

"When addressing the global capital markets clients will understandably be nervous if they see a law firm that feels duty bound to wave a home country flag to protect its patch," he said.

US lawyers have been successful in the past in keeping the English firms out of their market by talking up the need for experience in handling the SEC, by arousing fear over relying on a UK firm's opinion in case of litigation by US investors, and by pointing to the lack of in-depth US tax and disclosure experience among UK firms.

Indeed, UK international law firms report that US lawyers are still trotting out these arguments to US banks.

A recent survey by International Financial Law Review of

The issue was done off the bank's US domestic shelf programme

advisers on international bonds confirmed that UK firms had still not done US public deals for their underwriter clients despite four to six years' investment in US securities capability (see table).

So does the Allen & Overy deal represent a landmark in global legal services?

The UK firm advised bookrunner Bear Stearns and a who's who of US banks including Lehman Brothers, Morgan Stanley, Chase Manhattan, Salomon Brothers and Citibank.

Bear Stearns's regular US counsel, Kramer Levin Naftalis Nissen Kamin & Frankel, lacked the global reach for the debut international issue by the US bank and would have needed to work in tandem with international counsel. So the banks sought a single firm as outside counsel.

The fact that they turned to a UK law firm rather than US counsel should not be underplayed - due diligence had to be done on the US parent to SEC standards and 66 per cent of the issue was placed in the US.

On previous Yankee and global deals lead managed by the bank, New York heavyweights Simpson Thacher & Bartlett and Cravath Swaine & Moore had been counsel to Bear Stearns.

The issue was done off the bank's US domestic shelf programme, Allen & Overy having advised on the setting up of Bear Stearns's Euro Medium Term Note programme.

"It is part of a trend, because a number of issuers have US programmes and Euro programmes and it does not make sense having the cost of two if you can

Sound advice: the UK leads the way

Legal advisers to lead managers of international bond issues in 1997

Law firm	Geographical location of issuers						Total issues		Market type	
	Europe	LA	Asia	Africa	US/Can	Other	Issues	Value (\$bn)	Issues	Value (\$bn)
1. Linklaters (UK)	274	19	82	0	3	7	385	144	20	20
2. Allen & Overy (UK)	215	4	88	0	0	0	104	101	13	13
3. Clifford Chance (UK)	81	0	16	0	1	11	108	84	16	16
4. Hengeler Mueller Wenzel Weber (Swi)	38	0	0	0	0	0	41	20	2	2
5. Cherry Chisholm Sheen & Phipps (UK)	10	4	0	0	0	0	20	13	0	2
6. Simmons & Sterling (US)	9	0	0	0	0	0	20	9	10	2
7. Davis Polk & Wardwell (US)	8	0	0	0	0	0	22	7	0	3
8. Baker & Macgregor (US)	2	0	0	0	0	0	20	17	0	0
9. Shearman & Sterling (UK)	14	0	0	0	0	0	20	20	0	0
10. Sullivan & Cromwell (US)	0	0	0	0	0	0	10	4	0	0

Notes: Based on 1997's data. Issuers were ranked by the number of issues they advised on. This table is based on data from the 1997 Global Vantage database. Issuers are ranked by the number of issues they advised on. This table is based on data from the 1997 Global Vantage database.

Source: International Financial Law Review

have a single programme," said Andrew Ballheimer, the capital markets partner with Allen & Overy in New York who led the firm's team on the Bear Stearns deal.

"The clients have the choice of having two firms - the US firm for the US aspects and an English firm for the English aspects - or of coming to us who can handle both aspects.

"People recognise that our US team is of high quality and at least as good as the people at the principal US firms," he said. Having hired 40 US-qualified lawyers in four years based in New York, London, Milan and Hong Kong, Allen & Overy has overcome the objections of US clients to accepting the legal opinion of a non-US law firm for public deals.

This opinion, known as the 10b-5 opinion in reference to the federal anti-fraud rule of the 1934 Exchange Act, is assurance by the lawyers that there is nothing that has come to their attention which is misleading about the information disclosed to invest-

ors, or, for that matter, information omitted by the issuer.

Fear of US investor litigation means that market practice on disclosure differs little whether the deal is public (SEC registered) or private (done under Rule 144A). But until now US lawyers at UK firms had been restricted to representing

Our US team is at least as good as the people at the principal US firms

underwriters on private Rule 144A deals sold to US pension funds and insurance companies.

"The only issue is if the 10b-5 opinion is acceptable to the client, and if it is acceptable on the Rule 144A deal how can it not be on the registered deal? The real significance of this deal

is that the artificial barrier has come down," said Mr Ballheimer.

As well as US and English opinions, the firm also provided the underwriters with advice on the Hong Kong listing. The transaction opens up the possibility for more global bond deals for UK firms, particularly for US issuers wishing to combine US domestic offerings with international placements. For that reason it must be seen as a landmark in global legal services.

It remains a big step for a UK firm to act as sole underwriters' counsel on the headline flotations or privatisations that have significant placings of securities in the US public market, but Allen & Overy is understandably bullish.

"Our vision of an integrated, high quality, global legal service has been recognised and is required by the market," said Mr Ballheimer.

The author is the editor of International Financial Law Review.

The double taxation convention between Germany and France was not contrary to Treaty of Rome rules on equal treatment and free movement of workers, the European Court of Justice ruled last week.

The case arose out of an application by Mr and Mrs Gilly in the Strasbourg Administrative Court challenging the amount of tax Mrs Gilly had been charged by the French authorities.

The Gillys lived in France, near the German border. Mr Gilly, a

French national, taught in a state school in France. Mrs Gilly, a German national who had also acquired French nationality by marriage, taught in a state school in the frontier area of Germany.

France and Germany had signed a convention to avoid double taxation. It was applied to Mrs Gilly to calculate the tax credit to be set-off in France against the tax she paid in Germany.

The Gillys argued that the application of the convention had resulted in unjustified discriminatory and excessive taxation, incompatible with the treaty. The Strasbourg court referred the matter to Luxembourg.

The European Court ruled first that although the abolition of

double taxation within the European Union was among the treaty's objectives, it did not confer on individuals any rights which they could rely on before their national courts.

The Court then considered whether the state's free movement of workers, a provision precluded the application of measures such as those in the convention.

Those provisions stipulated that the tax regime applicable to frontier workers differed depending whether they worked in the private or public sectors.

Where they worked in the public sector it also depended on whether they had only the nationality of the state employing them. The regime for teach-

ers also differed depending whether their residence in the state they were teaching in was short or not.

The Court said the issues raised by the Gillys fell within the scope of the treaty rules on free movement of workers. It noted there was not yet a harmonising measure for the elimination of double taxation at the EU level.

Member states therefore remained competent to determine the criteria for taxation on income and wealth with a view to eliminating double taxation.

The convention's nationality criterion could not be discrimination under the treaty, as it flowed from the contracting parties' competence to define the criteria

for allocating their taxation powers as between themselves with a view to eliminating double taxation.

Nor was it unreasonable for member states to base bilateral agreements on internationally accepted practices and principles, such as the paying state rule.

Under that rule, remuneration paid to a person having the nationality of the other state without also being a national of the first state, is taxable in the taxpayer's state of residence.

Therefore the free movement of workers' rules did not preclude the application of provisions such as those in the convention.

The Court considered the Gillys' submission that the tax credit mechanism penalised

those who exercised their freedom of movement in that it allowed an element of double taxation to remain. It said the object of the convention was simply to prevent the same income from being taxed in each of two states, not to ensure the tax to which the taxpayer was subjected in one state was no higher than that which they would have been subjected to in the other. The treaty did not therefore preclude the application of a tax credit mechanism, such as that in issue.

C-336/96: Gilly v Directeur des Services Fiscaux du Bas-Rhin, ECU FC, May 12 1998.

BRICK COURT CHAMBERS, BRUSSELS

White & Case trio join New York office of Linklaters

Truman Bidwell, Marianne Rosenberg and Robert Smith, former partners of White & Case, the US international law firm, have joined the New York office of Linklaters, the UK international law firm. The three US lawyers, who joined Linklaters last week, are recognised worldwide as one of the strongest US-based asset finance teams. Linklaters' current US practice worldwide comprises nearly 40 securities and tax lawyers, 17 of whom are based in New York.

Tax head named

Reg Nook, a former barrister and tax lawyer with Deloitte & Touche, the accountants, has been appointed head of tax in the London office of Everheds, the national law firm. Mr Nook will concentrate on business development within the tax sphere

Reg Nook: stamp duty specialist

as well as continuing to offer his specialist expertise in stamp duty. His arrival takes Everheds' corporate tax group in London to 10 lawyers.

Taiwan expansion

Baker & McKenzie, the world's largest law firm, is opening a second office in Taiwan. Based in Hsin Chu, 90 miles south of Taipei, the new office is designed to take advantage of the rapid growth of computer and computer-related industries in Hsin Chu's industrial park. The Hsin Chu office is the firm's 59th office around the globe and its 12th in the Asia-Pacific region. The new office will be fully integrated with the firm's Taipei office, opened in 1977, and the combined operation will consist of 45 lawyers.



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## THE ARTS

## SALEROOM AUCTIONS IN NEW YORK

## Mix and match of masters pays off

Antony Thornicroft reports on the big Impressionist and Contemporary art sales

The international art market is in fine shape. Last week in New York, Christie's and Sotheby's fielded all that the fates could throw at them and succeeded in selling important Impressionist, Modern and Contemporary art with profitable ease.

For Christie's, the challenge was to persuade collectors that its new date lines, under which Impressionists such as Monet and Renoir are relegated to the 19th century to sell alongside traditional masters like Courbet, while Picasso and Matisse are considered modern enough to be included in a 20th century sale with Warhol and Rothko, made artistic sense. It succeeded to the tune of \$61.5m, well up to its most optimistic expectations.

Sotheby's had to contend with a New York taxi drivers' strike on Wednesday for its traditional sale of Impressionist and Modern art, and the last episode of *Seinfeld* on Thursday when it sold Contemporary art. It took the precaution of broadcasting the cult TV show in its rooms, but in the event the audience was riveted enough by the paintings. Indeed, the \$17.3m paid for Andy Warhol's "Orange Marilyn" was the event of the week.

The fierce bidding by two prospective buyers for Warhol's silk-screen painting, which was expected to make around \$5m, reminded some observers of the climax of the 1980s art boom, when investment-crazy collectors forced prices to unsustainable heights, leading to the subsequent collapse.

At the moment the market is strong, with demand for the finest works exceeding supply, but without the spec-

ulative frenzy. It is this buoyancy in the most profitable sector of the art trade which has encouraged Francois Pinault, the French billionaire and contemporary art collector, to make a bid yesterday for Christie's, a bid which the Christie's board favours.

One great difference this time round is that the new collectors are being advised by consultants, many of whom are former Sotheby's board members.

### The Warhol was a sensation at \$17.3m, but the anonymous buyer got a bargain

and Christie's specialists, who know the current value of the art and how the auction houses work. The other change is the serious attitude to art of the would-be buyers - the earlier speculative element is absent.

With demand so buoyant, both Sotheby's and Christie's rued the fact that there were no magnificent estates to sell this month. The one major collection of offer, nine paintings sent for sale by Margit and Rolf Weinberg, the Zurich retailers, sold for \$11.3m, with Courbet's portrait of Whistler's mistress, Joanna Heffernan, making a record \$3.7m.

Christie's kept reserves low on Tuesday, which enabled it to find a buyer for a Modigliani portrait for \$4.8m when its pre-sale high estimate had been an ambitious \$6m. An earlier Modigliani in the auction had

attracted the stronger bidding, selling for \$5.38m. Christie's must be pleased that the innovation of placing later 20th century artists - Warhol, Rothko, and Diebenkorn - alongside the earlier masters like Braque and Picasso, paid off. The main reason for changing the date lines is to get conservative buyers interested in new sectors, which was confirmed when a collector of contemporary art bought a Cubist work by Braque for \$4.1m. The only record achieved in the auction was the \$18.1m paid for an abstract landscape by Diebenkorn.

Sotheby's brought in an encouraging \$77.9m on Wednesday night, with one of Monet's views of the Grand Canal in Venice making the top price of \$12.1m. At the peak of the market in 1990 the same painting had only managed \$8m. Its new owner is believed to be Paul Allen, the co-founder of Microsoft. He is advised by former Sotheby's specialist, David Nash. Some artists, however, are still below their 1990 levels - a typical Renoir, of pretty girls bathing, sold last week for \$3.4m; in 1990 it had fetched \$6.2m.

Both the Monet and the Renoir were off-loaded by Japanese owners: the auction houses are now prepared to dispose of the best of the vast haul of paintings, valued at \$60m, which have languished in Japanese bank vaults for the past decade, but few show a profit.



Booyant market: 'Buste de Femme' by Pablo Picasso sold by Christie's for \$5.3m last week

can, is highly desirable. The tension at Sotheby's contemporary sale was more electric than at the earlier auctions, and totalled \$36.6m, way above Sotheby's \$25.5m top forecast.

The Warhol was a sensation, but auctioneer Tobias Meyer believes that the anonymous buyer got a bargain. "It is one of the great icons of 20th century art comparable to a major Pic-

asso." Also in the auction was Lucian Freud's portrait of his daughter Bella enjoying a party in Notting Hill Gate with some friends in 1982. It sold for \$5.8m (\$3.57m), easily a record for any living British artist. In 1983 his owner, Freud's former dealer James Kirkman, had offered it unsuccessfully to the Tate Gallery for a reputed \$250,000.

The success of last week's auctions will convince both Sotheby's and Christie's that their ambitious plans for expansion in New York are well founded. The two auction houses are investing in extensive new buildings - Sotheby's on the top of its York Avenue premises; Christie's on a new site at the Rockefeller Centre.

And Sotheby's is already developing in new directions, principally through boosting its activities in private treaty sales on behalf of owners. Such transactions may lack the excitement of the auction, but are another step in Sotheby's and Christie's master plan to take over the art world.

A special night-page FT Summer Arts guide will be published on Saturday, May 23 in the Weekend FT.

## MUSIC

## Spry, sly and elegant

The London Sinfonietta recently celebrated the music of Hanns Eisler (1898-1962) - one-time pupil of Schoenberg, long-term collaborator with Brecht, exiled by the Nazis, victimised by the House Committee on Un-American Activities and finally honoured (cautiously) in East Germany. In the sense of the old Chinese curse, he certainly "lived through interesting times".

The Sinfonietta had the considerable assistance of the conductor, composer and character actor E.K. Gruber. At the afternoon session he and the composer David Blake reminisced about Eisler, while pianist John Constable, mezzo Mary King and three other singers offered a neat conspectus of early Eisler. We heard his bright, op. 1 piano sonata from the Schoenberg days, and a pair of highly personal song-cycles composed after he broke with Schoenberg.

In the evening Gruber conducted the Sinfonietta, with his customary fervour, in later Eisler. The astringent *Kleine Sinfonie* op. 29 combines Schoenberg technique with political marching-song and theatre-music. In songs, choruses and scenes from *The Mother*, adapted by Brecht from Maxim Gorky as bitter theatrical agitprop, Gruber served also as *charakteristischer*, abetted by Maria Friedman and Omar Elrahman.

It was delightful to hear the MatWest Choir, along with the CYM Chamber Choir, delivering the calls to revolution with such full-throated ardour. It was also delightful to hear Gruber more like his sly Viennese self in four long "complaints" that Eisler wrote for a Nestor play in 1948: spry as well as sly, and rather elegantly turned.

Finally, we had a sort of Gruber premiere, at least for the UK: a newly extended version of his 1996 cycle *Zeitstimmung* - officially translated as "Time-shadow", which I suppose is a fair shot at an impossible target. The same could be said of the English translation, which labours under the burden of having to answer to Gruber's wild flights of *Sprechstimme*-plus to his original German setting.

The poems are by the ironical Viennese poet E.C. Armann, as in Gruber's earlier *Frankenstein!*, but not mock-childish this time - mock-fabulous, rather, and suggestive of dark morals. Gruber's orchestra again rocks with smoochy, hallucinatory dance-rhythms, vibes, sax and marimba, but instead of toytown colours there are mock-orientalisms to mask the uncomfortable meanings. Though it sounded gorgeous and mad, I thought the English version too much of an aesthetic effort, a distraction. The composer's "bizarreness" are really anchored in the original text, and go adrift in another tongue.

David Murray

## An artist in suspension

William Packer reviews the installations of Cornelia Parker

Cornelia Parker has latterly become one of the more consistently conspicuous and successful of our Young British Artists, perched so precariously at the cutting edge of creativity, whom the Arts Council and significant Modern Collections think it so necessary to support.

At 42, she is not so very young, but her career burgeoned in the late 1980s, coincidental with the new wave of conceptualism and timing, we know, is everything. Now, after her inclusion in Biennales abroad and nomination for the Turner Prize at home, her elegant and seductive retrospective at the Serpentine, of work of the last 10 years or so, would seem to be the confirming compliment.

She is conventionally described as a sculptor, but in fact she makes nothing herself. Indeed, she goes to great lengths to avoid making anything, as the titles to her art-works so often make clear. A show at Cardiff a year or two ago was called *The Avoided Object*. She calls a whole class of

her work "Altered States". What she does is to find odd things, bits and pieces, play around with them, do things to them, and re-present them.

The first important art-work of hers to be acquired by the Tate, for example, "Cold Dark Matter", was an old garden shed which, with its contents, she persuaded the British Army to blow up. Hav-

### 'Cold Dark Matter' was an old garden shed which, with its contents, she persuaded the British Army to blow up, and then hung the shattered fragments from the Tate's ceiling

ing picked the shattered fragments out of the surrounding fields and hedges, she hung them all, or at least as many as she could find, from the ceiling of the gallery, each by its own thread, with the whole dangling mass lit from the centre by a single bulb. It worked, I must admit, to dramatic, deeply-shadowed effect.

Last year the single most popular work at the Tate's Turner Prize Exhibition was her "Mass (Colder Darker Matter)", which

was a similar suspension, this time of blackened beams salvaged from a burnt-out Texan church that had been struck by lightning. In 1996, in "The Maybe" at the Serpentine, she had the actress, Tilda Swinton, Beauty-like, asleep for days on end in a glass case. And this perhaps is the problem. It is all very striking, very dramatic, rather beautiful - at least

at first. The effect is everything. This new Serpentine show includes other of what Lisa Corrin, the new curator at the gallery, calls her "classic suspended installations." "Thirty Pieces of Silver" (1998) consists of 1000 miscellaneous items of silver plate that were run over by a steamroller. Hung just off the floor in 30 circular sets, their only properly sculptural interest rests upon the flat, horizontal plane they establish within the space. As objects,

they are seductive and intriguing, swaying gently in the draught, glinting in the sun. But for Parker, the interest is principally narrative and symbolic. The "former life" of these objects, we are told, was "symbolically crushed out", leaving them as "both diagram and blueprint: things as they were; things as they are; things as they can be."

Another suspension, "Matter and what it means" (1999) consists of innumerable 10 pence pieces that had been laid on the line to be fastened by the passing train. The pile of coins on the floor follows a vaguely human outline, above which hover an accumulation of coins on strings, which could be two featureless bodies, shimmering with a sepulchral beauty within the darkened room. It tells us of mortality, vanity, and the pointlessness of human greed. For me, it called something more natural and unaffected to mind - the shroud of ivory over the grave of Van Gogh and his brother.

Parker has suits and dresses shot through with pearls and coins, which she hangs proudly up to show the holes. She polishes the inside of armour once worn by Henry VIII, and shows us the new-



A coin is a coin: 'Embryo Money', 1996, by Cornelia Parker

ly-stained cloth she used. She has silver dollar drawn portentously into a wire equivalent in length to the height of the Statue of Liberty. She smashes a coffin into splinters, the only time she has ever used hammer and chisel. She has created a new work specifically for this show, "Room for Margins", from the unseen margins and linings of Turner's canvases, "challenging us to conjure the originals in our mind's eye."

Such are her works of art. But the back of a canvas is still the back of a canvas, a wire a wire, a coffin-splinter a piece of wood, a coin is a coin. "This is what I

enjoy about my life as an artist", she says. "I can go to the Colt Firearms factory and discuss with engineers shooting pearls and money from guns instead of bullets... somehow I'm allowed the privileged position to look around... That's why I make art. It's a way of experiencing the world that I couldn't possibly have if I was sitting at home working in a studio..." There is really nothing more to say.

Cornelia Parker: Serpentine Gallery, Kensington Gardens, London W2, until June 14; sponsored by Credit Suisse First Boston.

## INTERNATIONAL

## Arts Guide

## AMSTERDAM

**OPERA**  
Netherlands Opera, Het Muziektheater  
Tel: 31-20-551 8911  
Tosca: by Puccini. New production by Nikolaus Lehnhoff with a cast including Bryn Terfel. The conductor is Riccardo Chailly; May 19, 22

## BERLIN

**CONCERTS**  
Philharmonie  
Tel: 49-30-2548 8354  
● Berlin Philharmonic Orchestra: conducted by Emmanuel Krivine in works by Beethoven and Tchaikovsky. With violin soloist Gil Shaham; May 19  
● Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Bartok and Brahms. With soloist Andrés Schiff; May 23, 24

## BONN

**EXHIBITIONS**  
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland  
Tel: 49-228-917 1200

**EXHIBITION**  
Art Institute of Chicago  
Tel: 1-312-443 3600  
www.artic.edu  
Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and paintings, which demonstrate the importance of lithography to his art and theory; to Aug 30, then transferring to Ottawa

## BRUSSELS

**OPERA**  
La Monnaie  
Tel: 32-2-229 1211  
● Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company, at the Luntheater; May 19, 20, 22  
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Aeschlimann; May 19, 20, 21, 22, 23

## CHICAGO

**CONCERTS**  
Orchestra Hall  
Tel: 1-312-294-3000  
www.chicagosymphony.org  
● Chicago Symphony Orchestra: conducted by Franz Welser-Möst in works by Brahms and Shostakovich. With piano soloist André Watts; May 19  
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 3 and 4; May 22, 23

**EXHIBITION**  
Art Institute of Chicago  
Tel: 1-312-443 3600  
www.artic.edu  
Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and paintings, which demonstrate the importance of lithography to his art and theory; to Aug 30, then transferring to Ottawa

## FLORENCE

**OPERA**  
Maggio Musicale Fiorentino  
Tel: 39-55-271158  
www.maggiomusicale.com  
Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETI-Tetto della Pergola; May 21, 23

## GENEVA

**CONCERT**  
Victoria Hall  
Tel: 41-22-3170017  
Orchestra de la Suisse Romande: conducted by Edmon Colomer in works by Turina, Ravel and Falla. With piano soloist Alicia de Larrocha; May 20

## LONDON

**CONCERT**  
Royal Festival Hall  
Tel: 44-171-960 4242  
The Royal Opera: Die ägyptische Helena, by Strauss. Concert performance, conducted by Christian Thielemann. Cast includes Deborah Voigt and

Thomas Moser; May 22

## LOS ANGELES

**CONCERTS**  
Dorothy Chandler Pavilion  
Tel: 1-213-365 3500  
● City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts a programme of works by Rameau, Haydn and Beethoven; May 20  
● City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts works by Knussen and Mahler; May 21

## MILAN

**OPERA**  
Teatro alla Scala  
Tel: 39-2-38791  
www.lascala.milano.it  
Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier'Alli, with a cast including Kim Begley and Nancy Gustafson; May 19

## MUNICH

**OPERA**  
Bayerische Staatsoper  
Tel: 49-89-27185 1920  
The Midsummer Marriage: by Michael Tippett. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; May 22

## NEW YORK

**CONCERTS**  
Lincoln Center  
Tel: 1-212-721 8500  
www.lincolncenter.org

● New York Philharmonic: conducted by James Conlon in works by Rachmaninov and Liszt. With piano soloist Garrick Ohlsson; Avery Fisher Hall; May 19  
● New York Philharmonic: conducted by Kurt Masur in Shostakovich's Symphony No. 7, "Leningrad"; Avery Fisher Hall; May 21, 22, 23

**EXHIBITIONS**  
Guggenheim Museum  
Tel: 1-212-423 3500  
www.guggenheim.org  
Visions of Paris: Robert Delaunay's Series. Previously seen in Berlin, this exhibition focuses on the series paintings made by the artist in Paris, of subjects including Saint-Severin and the Eiffel Tower; to May 24

Metropolitan Museum of Art  
Tel: 1-212-879 5500  
www.metmuseum.org  
Augustin Pajou, Royal Sculptor: retrospective devoted to works by the French sculptor (1730-1809), who was a favourite of Louis XV and Louis XVI. Includes marble statues, portrait busts, terracotta sketch-models, and drawings. Including designs for the opera at Versailles; to May 24

Museum of Modern Art  
Tel: 1-212-708 9480  
www.moma.org  
Alvar Aalto: Between Humanism and Modernism. Centenary tribute to the Finnish architect, designer and town planner. Unprecedented in scale, the show includes sketches, drawings, models and photographs, many of them loaned

by private collections in Europe; ends today

## OSAKA

**EXHIBITION**  
The Museum of Art, Kitetsu  
Tel: 81-6-624 1111  
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. The exhibition marks the centenary of his tragically early death, and arrives in London after touring in Japan; to Jun 8

## PARIS

**CONCERT**  
Théâtre des Champs Elysées  
Tel: 33-1-49525050  
Orchestre National de France: conducted by Vassili Sinaisky in works by Haydn, Saint-Saëns and Beethoven. With cello soloist Han Na Chang; May 19

## EXHIBITION

Jeu de Paume  
Tel: 33-1-4703 1250  
In defiance of painting: "Je ne peins pas, je cloue mes tableaux", wrote Kurt Schwitters. This century has seen many artists forsake their brushes in favour of a variety of other implements. Burt, Fontana and Arman are some of the artists represented in this exhibition, which proposes to explore this dimension of painting; from today until Aug 30

## ROTTERDAM

**EXHIBITION**  
Kunsthal

Tel: 31-10-440 0300  
Look at me: Fashion and Photography in Britain 1960 to the present. First stop for a touring exhibition which tracks the development of fashion photography with its emphasis firmly on popular culture rather than haute couture; to Aug 9

## SAN FRANCISCO

**CONCERTS**  
Davies Symphony Hall  
Tel: 1-415-364 6000  
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Mozart, Lukas Foss, Stravinsky and Berg; May 20, 22, 23

## TV AND RADIO

● **WORLD SERVICE**  
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

## EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**  
Monday to Friday, GMT:  
06:30: Moneyline with Lou Dobbs  
13:30: Business Asia  
19:30: World Business Today  
22:00: World Business Today Update

● **Business/Market Reports:**  
05:07: 06:07: 07:07: 08:20: 09:20: 10:20: 11:20: 11:32: 12:20: 13:20: 14:20.

At 08:20 Tanya Beckett of FTTV reports live from Liffe as the London market opens.



## COMMENT &amp; ANALYSIS



MARTIN WOLF

## Wealth of nations

At 50, the Gatt and its successor the WTO have much to be proud of. The question now is how to build on their success

"Enduring peace and the welfare of nations are indissolubly connected with friendship, fairness, equality and the maximum practicable degree of freedom in international trade." Cordell Hull, US secretary of state, 1937.

For half a century two institutions have been at the heart of the rapidly growing body of international trade. They are the General Agreement on Tariffs and Trade (GATT) and, since January 1995, its successor, the World Trade Organisation. From an inauspicious start GATT and the WTO have come to have a greater impact on the world than any other international economic institution. The question confronting this week's 50th anniversary meeting in Geneva this week is how to sustain – and develop – that success.

Success it has certainly had. Only 23 countries participated in the first round of negotiations in 1947. Today, its successor, the WTO, has 132 members, with 31 waiting to join. Between 1950 and 1996, the volume of world exports rose 18 times, while output rose six times; even more incredibly, the volume of world exports of manufactured goods rose 31 times, while manufactured output rose nine times.

The initial task was to reverse the damage to international economic integration done by the great depression and the second world war. That had been largely achieved by the 1970s. Since then, as the table shows, openness to trade has reached unprecedented levels.

Yet past success must not breed complacency. The failure of Bill Clinton, the

US president, to win fast-track negotiating authority from Congress, the popular – and populist – campaign against globalisation and the financial shock in east Asia all threaten what has been, and can still be, achieved.

If the system is to be defended and strengthened, it is necessary to understand what it is: why it has gained influence; what opportunities it enjoys; and what dangers it must now confront.

First, on what principles is the system based? Perhaps the most common criticism is that it simply reflects outmoded economic theories. True, economists have long argued in favour of liberal trade on *a priori* grounds.

Contrary to widespread popular misunderstandings, those theories, including comparative advantage, remain as valid as ever, as Douglas Irwin of Dartmouth College has argued cogently in a splendid history of the idea of free trade.

In reality, however, the system has always been based on still wider considerations. The WTO rests on three pillars: negotiated liberalisation,

leading to bound levels of protection – that is a fixed margin of protection; the spread of the benefits of greater market access to all members, through non-discrimination; and, underpinning all these, the rule of law. As the quote from Hull shows, the hope was that mutually beneficial trade, protected by international agreement, would promote prosperity and limit the capacity of partial economic interests to generate ruinous international conflict.

Second, why has the system strengthened over the years? Perhaps the most important reason is hard-won experience.

For the first three decades of the Gatt's existence, trade liberalisation was limited almost entirely to north America and western Europe. Meanwhile, most developing countries tried the combination of planning with autarky that the Soviet Union and its satellites took to a logical conclusion. The important exceptions were the export-promoting policies of Japan, South Korea and Taiwan and the purer free trade of Hong Kong and Singapore.

The huge success of these Asian exceptions and the ever more obvious failure of those seeking self-sufficiency did, more than anything else, help produce the shift seen since the late 1970s. No fewer than 60 countries embarked on unilateral liberalisation during the seven years of the Uruguay round alone.

Third, what are the opportunities the system now enjoys? The short answer is to complete the edifice. The elements of that construction should include:

• Further liberalisation to cover tariffs, agricultural commodities, textiles and clothing, services and public procurement.

• Widening WTO membership, particularly to embrace China and Russia.

• Strengthening WTO disciplines, especially over the mushroom-like growth of regional trading

arrangements and over reliance on economically questionable anti-dumping.

• Strengthening the WTO as an institution, partly by increasing its budget from its ridiculously low level of \$78m (£47m).

This is by no means the complete list. A broader agenda would include trade and the environment, trade and labour standards (not, fortunately, yet on the official agenda), investment and competition. But the first two are potentially damaging to liberalisation, while the third and fourth are, strictly speaking, unnecessary. The trading system may well, for want of a better instrument, be loaded with tasks that are not germane to its central purpose. But this counts not so much as an opportunity as a danger.

So what, finally, are the chief dangers confronting the system? Two in particular stand out.

The first is the need to separate the case for liberal trade from that for freeing capital flows. Although both are taken to be components of globalisation, liberal trade does not entail freedom for capital flows. Many high-income countries liberalised trade while retaining exchange controls until the 1980s or 1990s. The collapse in east Asia has merely underlined the

dangers in premature and ill-regulated capital account liberalisation.

Still more fundamental is political legitimacy. Markets may be global, but governments are local. The rules governing the former and constraining the latter necessarily emerge from inter-governmental negotiations and are policed by international organisations. While inevitable, this also creates a disjunction between what citizens demand and what their governments can deliver.

As the rules of the trading system have become more intrusive and binding, conflicts have increasingly arisen between the transnational forces of domestic single-issue activism on the one hand and the immovable object of internationally agreed rules and procedures on the other.

Environmentalists believe the rights of a Thailand or a Mexico are nothing compared to those of dolphins and turtles. Yet a global trading system cannot operate on that basis.

Can this danger be eliminated? No, but it can be ameliorated by better explanation of the rules, by greater transparency in WTO procedures, by commissioning and publishing research into links between trade and other concerns and, not least, by moving environmental and social issues into other forums.

Above all, people must be constantly reminded of history and contemporary realities. No country can be an economic island and none, even the US, can dictate terms to all the others. The only choice is between a chaotic international market, without global co-operation, and a relatively orderly marketplace, with it. The right choice was made by the Gatt's founding fathers half a century ago. It is our privilege and our opportunity to build on those foundations.

Against the Tide: An Intellectual History of Free Trade, Douglas A. Irwin (Princeton: Princeton University Press, 1996)

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## LETTERS TO THE EDITOR

## Views on inflation and monetary policy in Europe too simplistic

From Mr Ronald Janssen

Sir, Your article in which the European Central Bank is reported as seeing inflation as a big threat is both astonishing and alarming ("ECB board sees inflation as big threat", May 9). Indeed, a number of arguments which the future decision makers on European monetary policy are advancing are simplistic and simply not true.

For one, the position that the risk of inflation exceeds the risk of deflation is in contradiction with the basic economic fact that monetary policy can play an important role in fighting inflation but not in the case of deflation.

Since negative nominal interest rates are impossible (people would simply withdraw their money from banks and hold on to cash),

deflation imposes the risk of high real interest rates. Being unable to fight deflation, a central bank should therefore avoid at all cost moving the economy into such a liquidity trap.

Furthermore, the phrase that monetary policy is neither the cause nor the solution to Europe's unemployment problem conveniently ignores the fact that a record of poor growth in Europe coincided with a very restrictive stance of monetary policies from 1980 to the end of 1996. One can, of course, argue that the group of six is now putting on a show to convince financial markets and to reassure the German public on the introduction of the euro.

For the sake of the European economy, however, let us hope that the group of six does return to its senses

when the business cycle threatens to push up inflation in the euro area from a historical low of 1.2 per cent to another historical low of 2 per cent.

If the "show" were continued and the European Central Bank cut economic growth to keep inflation at, say 1.5 per cent, the economy of the euro zone would have exchanged the "boom and bust" scenario of the 1970s and 1980s for a scenario in which the economy in the 1990s recovers from one slump only to go straight to yet another slump.

Ronald Janssen, economic adviser, research department, Christiana Trade Union, Weststraat 121, 1040 Brussels, Belgium

## Market will determine future of Euribor

From Mr Clifford Danvers

Sir, I was disappointed to see Lex repeating some of the (unfortunately) widely held perceptions about Euribor ("Libor/Euribor", May 15). The banks which will make up the reporting panel will be first-class professional banks. More importantly, the credit rating of the reporting banks will be irrelevant because the rates which are to be reported will be the rates which each

reporting bank sees prime banks quoting to other prime banks in its market. They are not necessarily rates quoted to the reporting bank for deposits with it. This is the same basis on which the British Banking Association proposes to calculate euro Libor.

The International Primary Market Association is content with Euribor and Libor as successor price sources and expects there to be com-

petition between them. Ultimately the preference of the market will determine whether or not one will survive but misinformation does not contribute to the quality of that competition.

Clifford Danvers, secretary-general, International Primary Market Association (IPMA), 26-38 Cornhill, London EC3V 9ND, UK

## Policymakers and the power of the equity lobby

From Mr John Hardman

Sir, Gerard Baker concludes his article, "When fears are overcome" (April 28), with the thought that "the real difficulty policy makers face [is] not how to engender a big correction [in the stock markets] but how to avoid it".

This raises several questions. Why should policy

makers want to maintain current levels? Can it be done? They want to because more than half the wealth owned by private individuals in the UK and the US is now in the form of equities: equity holders accordingly form a lobby as powerful as were homeowners 20 years ago.

Second, it is in the interest

of governments to encourage private pension schemes and that these investments should be successful. This, not "Goldilocks", is the new paradigm.

John Hardman, Trefield, 65 Beech Road, Hartford, Cheshire, UK

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## PERSONAL VIEW DAVID SHEARER

## The world's private armies

The recent controversy in the UK concerning "mercenaries" has opened a debate on the need to control and regulate private military companies

Behind the recent controversy in Britain concerning the role of "mercenaries" in Sierra Leone is the wider and more important issue of the privatisation of conflict and security. The plain fact is that military companies are playing an increasingly influential role in areas once the domain of sovereign states.

Some label these companies mercenaries. But the term has enflamed the debate and obstructed a better understanding of the reasons behind their existence. Banning them is neither possible – nor necessarily wise.

"Mercenary" is not a helpful word. International law has yet to come up with a definition of a mercenary that would withstand the rigours of a courtroom. Only 12 countries have signed the 1989 UN Convention on mercenaries. And even though UK legislation banning them dates back to last century, there has not been a single conviction in more than a 100 years.

The emergence of private military companies has outstripped both domestic and international policy to deal with them. The tendency is on the one hand to pretend they do not exist and on the other to recognise their importance and to seek covert dialogue. The result is a muddled worst of both worlds. No wonder the government is in the mire.

There is a need to engage with these companies. This is a first step to controlling and regulating them.

Sandline and other so-called military consultants may prove useful to UK and other western governments. Its assistance to Sierra Leone, for example, was in accordance with British foreign policy objectives. It supplied weapons and military expertise to an elected government of Sierra Leone that had been ousted by a military junta. The junta's favoured tactic of intimidation was to amputate limbs with machetes. Moral concerns over the use of a military company fade in comparison.

There is also little likelihood these companies will



Military solution: the private sector has stepped into the vacuum

go away. Their growing role has coincided with the collapse of communism. Western governments have little strategic interest in intervening in other country's civil wars. The early optimism over UN peacekeeping has faded in the wake of the Somalia debacle which led to the embarrassing US withdrawal from that conflict. Neither is there much domestic appetite for a country's soldiers to fight in other people's wars.

Instead, the favoured western response is to impose sanctions. Unfortunately, sanctions seldom work. With military force needed, but no government willing to provide it, the private sector has seized the opportunity and stepped into the vacuum. They are bolstered by military expertise available from the downsizing of western armies and an abundance of cheap ex-Soviet weaponry. They offer one of the few alternatives for a besieged government like that of Sierra Leone.

Most important, they have shown their effectiveness. Executive Outcomes, the South African company, has been a market leader. First employed in Angola by a government under threat from the UNITA, within a few months of its presence the government reversed its succession of military defeats prompting the signing of the Lusaka accords. In May 1995, it was contracted by Sierra Leone's government and was the main factor behind turning its fortunes against the

Revolutionary United Front rebel group. That has allowed the first elections in 27 years and the signing of a peace agreement.

A larger group of companies conduct military training to recognised governments. The US company Military Professional Resources, headed by more than a dozen former US generals, is training both the Bosnian and Croatian armed forces. Others, such as BDM, linked with the Carlyle Group of James Baker, the former US secretary of state, have been training various parts of the Saudi Arabian forces. The US companies are more directly integrated into the US defence establishment and serve foreign policy interests.

Beyond this military-orientated category, the security industry broadens out into wider non-military protection functions, such as the passive protection of premises, mining installations and individuals. The British company DSL, for example, guards corporate and diplomatic premises throughout the world. Others have specialised in risk analysis for companies wanting to invest in unstable areas or provide protection from potential kidnapping.

Most British companies keep close contacts with the Ministry of Defence. Many of their personnel have risen through the military or intelligence services. A former special forces officer notes that he now works much as he did

before – merely on the other side of the public-private fence. A private company's intelligence can be a valuable supplement to official sources.

But such companies, especially at the extreme military end of the spectrum, do not necessarily need a government's approval to carry out their activities. This absence of accountability has created disquiet. There are few checks on their adherence to human rights conventions, for instance. Although they claim only to work for legitimate governments, deciding which is the "legitimate" side is not always straightforward.

Engagement with these companies is therefore vital. Military companies see their future growth and prosperity depending in part on their perceived legitimacy. Some are willing to be regulated.

From their point of view, transparency of their operations and business relationships is a crucial first step. But that involves meeting with government officials and discussing the issues. Given the circumstances, the apparent decision by the Foreign Office to enter into discussions with Sandline was the most intelligent option. The only pity is that it does not publicly acknowledge this.

The author is a research associate at the International Institute for Strategic Studies and author of *Private Armies and Military Intervention*

## Boris the Younger

Alexander Lebed's victory in Siberia has made him a formidable challenger to Yeltsin in the presidential elections in 2000, says Chrystia Freeland

"God bless you Alexander Ivanovich. God has given you to Russia to save us sinners." Nowadays, it is almost unheard of for a politician in Russia to inspire the sort of sentiment contained in this outburst from Ekaterina – a 48-year-old widow in Krasnoyarsk.

Alexander Lebed is an exception. Last weekend he won the governorship of Krasnoyarsk territory, a mineral-rich Siberian region more than four times the size of France, and Russians are now wondering whether his populist magic will be strong enough to propel him to the presidency in 2000.

His new job will not necessarily do it. Another former general who went into politics, Alexander Rutskoi (Boris Yeltsin's vice-president who took up arms against him in 1993), has also been a governor, of Krasnoyarsk in southern Russia, for two years. His career has gone nowhere.

Mr Lebed's chances look much, much better. In a country still polarised by the traumatic shift from communism to capitalism, he is almost the only politician to do what Boris Yeltsin managed in two presidential elections: appeal across the political spectrum to nationalists at one extreme and liberal free marketeers at the other.

His image as an outsider, unainted by corrupt Kremlin politics, is a powerful draw for the millions dispossessed by the shift to a market system; but his aggressive anti-communism means his constituency is not limited to the pensioners who still cling to their party cards. Mr Lebed won some liberal fans for his role in ending the war in Chechnya in 1996; yet his military background makes him the pin-up boy of the far right.



Lebed's main foreign policy would be to make Russia rich and fat

ogy has been fertile ground for the nightmarish Russia so easily breeds.

The darkest of all is that a general's uniform and a dictator's iron fist lurk beneath the civilian suits and craggy smile.

Since he first captured the nation's attention in 1992 as commander of Russian troops in Moldova (where he planned to "cleanse" Krasnoyarsk of people from the Caucasus, Mr Lebed was outraged. "That is not the sort of question to ask me," he thundered. "We are all equal Russian citizens, including people from the Caucasus."

In a similar vein, Mr Lebed assured the electors of Krasnoyarsk that he would advocate a moderate foreign policy. "The world is afraid of us because we are thin and hungry and in the history of the world it is the thin and hungry who make war on the rich and fat," Mr Lebed told a gathering of business leaders. "My main foreign policy would be to make Russia rich and fat."

By the same rule that allowed Charles De Gaulle to give up Algeria and US President Richard Nixon make a historic overture to China, a battle-scarred general like Mr Lebed is one of the only Russian politicians who can afford to preach pluralism and tolerance. Mr Lebed owns the nationalist vote – just looking at him is enough to make every great Russian chauvinist snarl to

attention. He is smart enough to have realised his real challenge is to win the middle ground.

A similar logic seems at work as Mr Lebed gropes his way towards an economic agenda. The former general has little feel for economics, much less the workings of Russia's chaotic young market.

But, just as he insists he is a democrat, Mr Lebed is emphatic about one economic issue. He is a virulent opponent of communism and the central planning it forced on Russia and a supporter of private property. "The worst thing that has ever happened to Russia is that for 70 years the sense of private property was beaten out of our people," Mr Lebed complained on the hustings.

Not that he is a fan of Russia's new economic order. Much of his campaign focused on the economic failures of the Yeltsin years which, he says, has reduced people in Krasnoyarsk to eating cat feed and their own dogs.

The only solution Mr Lebed has is simplistic, but not stupid. Like the dismal scientists of the International Monetary Fund, Mr Lebed thinks the Russian economy needs liberalisation, particularly from bureaucracy. "The Russian economy is squeezed between two rocks – the lawless mafia and the greedy bureaucrats. In Moscow, it's a funny thing, the mafia turns out to be gentler than the state. The mafia takes just 10 per cent, the state takes everything."

Snappy slogans are not enough to run Russia. And apart from a messianic faith in his own destiny to rule Russia, the former paratrooper is short of long-held political views.

But that is hardly a decisive drawback. As he revs up for an attack on the Kremlin establishment from his Siberian fastness, Mr Lebed is coming to resemble another power-hungry, politically inchoate, charismatic outsider who overthrew the Russia elite nearly a decade ago. In some ways, Alexander Lebed looks like the young Boris Yeltsin – and that is why the old tsar's retinue is very, very afraid.



## COMMENT &amp; ANALYSIS

## FINANCIAL TIMES

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Tuesday May 19 1998

## Microsoft besieged

Could the antitrust suit against Microsoft, launched yesterday by the US Justice Department, be the start of a long and inconclusive war, such as that against International Business Machines through the 1970s?

Possibly. But although the department and 20 US states framed their charges against the software giant very broadly, they have wisely made their demand for remedies quite specific. At least for the time being. There was no suggestion (yet) that the authorities would press for anything as drastic as the break-up of AT&T, the telecommunications monopoly, 16 years ago.

But Bill Gates, Microsoft's abrasive chairman, should beware. Having rejected the remedies sought by the department over the weekend, he could yet find the nightmare of computer operating systems being designed by teams of lawyers coming true.

At one level, the charges levelled against the company appear extremely serious. Microsoft, it is said, has used its position as the supplier of operating systems for 90 per cent of personal computers to stifle competition, to harm consumers and to undercut innovation. It is charged, in particular, with using its dominance to gain acceptance for its Internet browser and overwhelm competition from its main rival in the field, Netscape Communications.

Moreover, although opinion polls do not by any means cast Microsoft as a bogey man, the fact that so many states are joining in the action indicates that its political position is at the least uncomfortable.

## Web browser

The main thrust of yesterday's suit reflects recent arguments about the company's decision to integrate its web browser with its latest operating system, Windows 98. It wants the company to unbundle the two or offer the Netscape browser with its own products - and to enable computer manufacturers to redesign the appearance of the opening screen of Windows 98. The department also objects to the way Microsoft has structured its contracts with equipment manu-

facturers and internet content providers to favour its own browser.

No doubt there are some fair points in these accusations. Microsoft is well known as a very tough commercial operator, and it understandably wanted to defeat Netscape when it thought "browser wars" were threatening its dominance over operating systems. Whether it used illegal means to further this aim remains to be determined.

## No obvious harm

However, it is worth bearing in mind that Microsoft's actions in the browser field do not appear to have done obvious harm to consumers. Microsoft's browser is free. So is Netscape's. PC users can have whichever they want. The argument then turns on whether Microsoft has designed Windows 98 in such a way as to make it excessively inconvenient for users to switch.

So long as consumers are satisfied, this need not matter very much. Since Microsoft has caught up in this field, it has been able to reduce Netscape's share of the browser market from about 90 per cent to 55 per cent. If Microsoft fell behind, it would be possible for a competitor with an obviously superior product once again to win market share. In any case software and the power of personal computers are developing so rapidly that few people can foresee what will provide a decisive competitive edge in five to 10 years' time.

The Justice Department seems wisely to have recognised this and to have stepped back from intrusive prescriptions about software. Instead it is emphasising the possibility of abuse in the structure of Microsoft's contracts, a much more fruitful field for antitrust investigation. Yet the authorities need to be careful that they do not become drawn into a long campaign against Microsoft merely because it is big, successful and has outsmarted competitors. This is a danger both for Mr Gates and the authorities. If they could both give a little, they would achieve what remains the best outcome: a compromise.

## Transatlantic relations

Yesterday's announcement that US extraterritorial sanctions may be on their way out is not just good news for oil and gas companies eager to do deals with Iran. It could also mark a productive new era in relations between the US and the EU. But there are serious obstacles to overcome before the rewards of the deal can be reaped.

US extraterritorial legislation had become a serious irritant in the transatlantic relationship.

The deal announced yesterday lays out the principles for the end of extraterritoriality. But crucially, the deal has to survive domestic US reaction, which could be very hostile. Bill Clinton, the US president, has the authority to grant waivers under the Iran-Libya Sanctions Act, but needs Congressional approval to amend the Helms-Burton Act, which could be very difficult to get. Still, Mr Clinton, who is increasingly recognising the importance of the relationship between the US and the EU, especially with Enna on the way, has a big incentive to push the deal through.

An improved US-EU relationship could achieve a great deal. It could help to guard against any protectionist instincts arising from the Asian crisis. The EU and US could also usefully prepare the ground for a new round of trade talks: no WTO deals are possible without the support of both the US and EU, and co-ordination beforehand could speed negotiations considerably. The Transatlantic Economic Partnership initiative, also announced yesterday, could be a useful forum for this. Co-operation of agreeing significant bilateral trade measures, as this could undermine the legitimacy of the WTO processes in the eyes of the rest of the world.

## International crises

And in foreign policy terms, the value of a common US-EU position cannot be underestimated. There have been too many occasions on which the lack of an agreed position has weakened the west's response to international crises.

But the promise of an end to extraterritorial action does not guarantee that transatlantic relations will be untroubled from now on. Significant difficulties in the relationship remain.

The key problem is Congress. It was Congressional pressure that pushed through the extraterritorial sanctions acts in the first place, and there remains a lot of support for the sanctions principle. Even if yesterday's deal goes through, Congress could cause problems in the future. Though the agreement with the EU commits the administration to opposing new laws requiring extraterritorial sanctions, Congress is likely to have a different view.

## 'Rogue' countries

The problem stems from a marked difference on the issue of how to deal with so-called "rogue" countries. Whilst the instinctive US reaction (particularly on Capitol Hill) is for assertive action, including sanctions, the Europeans have often preferred a strategy of "constructive engagement". This difference will continue to cause frictions. To minimise these in future, the EU will have to show that its rejection of sanctions is based on principle, rather than on commercial considerations - something that so far it has failed to do.

A further irritant in the transatlantic relationship arises from the lack of a co-ordinated EU foreign policy. Foreign policy issues tend to be thrashed out at the UN or Nato rather than at EU level. Such issues as Libyan terrorism or Iranian nuclear weaponry are never properly discussed between the EU as a whole and the US - leaving that relationship focused too narrowly on trade rather than on strategic questions. This is not the only reason why the EU needs better foreign policy co-ordination, but it is a far from negligible one.

Extraterritorial sanctions have soured the US-EU relationship for too long, and must be removed as soon as possible. To achieve this, Mr Clinton will have to be as adept in dealing with Congress as he has been in negotiating with the EU. This deal is too important to be allowed to fail.

## Government vs Big Business

It should have all the makings of an epic controversy. In election year, with the Dow at record levels, a Democratic administration is declaring war on the second most valuable company in the US. You might have expected thunderous opposition to this vigorous intervention in the operation of the fast-growing market - especially from Republicans, traditionally friends of Big Business.

Yet there was barely a murmur of dissent yesterday when it and 20 state regulators launched a block-busting antitrust suit against Microsoft, charging the company "anti-competitive and exclusionary practices". In place of wider political strife over the role of government regulation, the only partisan issue is whether you are pro-Microsoft or anti-Microsoft.

This is the more surprising because of the immediate background. In the past few weeks the trustbusters, led by Joel Klein at the Justice Department, appear to have been launching a broadly-based attack on the consolidation that has swept through many of America's largest industries of late, arguing that such deals will benefit only the monopolistic interests of big business.

In March, the Justice department stopped the merger of two defence companies, Lockheed Martin and Northrop Grumman. It has filed suit against Rupert Murdoch to stop him selling his satellite television business to a consortium of rivals, condemning the cable industry as "one of the most powerful and enduring monopolies in this country". Since September, the Federal Trade Commission has been investigating Intel, the world's largest chipmaker and the other half of the "Wintel" duopoly. Last month the Justice department's commodities division won its biggest ever fine (\$10m) against UGAR International, the largest US producer of graphite electrodes. Further trustbusting action is likely on several fronts - airline alliances, credit card companies, bank mergers and telephone takeovers.

It is true there are examples that point the other way. Last week the House of Representatives voted to repeal the Glass-Steagall and later laws that separate banking, broking and insurance. But overall, it seems as if the bureaucrats of the country of unfettered capitalism are turning against Big Business, or at least moving to limit its behaviour - and the politicians are doing nothing to stop them.

What lies behind this? It can hardly be popular opinion. Consumer surveys give mixed evidence on such complex lawsuits. The company has released an opinion poll showing the majority supports the company against the government. There is certainly no public outcry against big companies.

But if popular demand is not the answer, then what is? There are four possible explanations. The first is that antitrust activism appeals to what President Bill Clinton last month called an innate "suspicion of bigness". Commenting on the wave of alliances among large US airlines, he said: "Americans often feel that ordinary people do not have enough control over their lives anyway, so I think there is going to be this questioning atmosphere." In other words, after the reaction against Big Government comes the reaction against Big Business.

Last week, Mike DeWine, chairman of the senate antitrust subcommittee, took the unusual step

In the wake of the Microsoft suit, Richard Wolfe studies the reasons for the wider upsurge in US antitrust activity.



## Landmark antitrust cases

## Standard Oil

Standard Oil, the creation of John D. Rockefeller, is the textbook example of antitrust action. The company began life in Ohio in 1870 and was ruthlessly built into an oil-refining giant with a market share of more than 80 per cent by the turn of the century. But it swiftly ran into trouble, being charged with using predatory pricing to crush its rivals, controlling pipeline distribution, and fixing rates of oil on the railroads. In 1882 the Supreme Court ordered Rockefeller's empire, the Standard Oil trust, to dissolve. But that did not prevent Standard Oil from prospering as a holding company until 1911, when the court ordered its final break-up into 34 companies, and the directors to relinquish their control. Its successors - including Mobil, Exxon and Chevron - are still powerful in the petroleum industry.

## IBM

International Business Machines' antitrust problems date back to 1937 when it was accused of forcing users of punch card machines to buy its punch cards. Again, in 1952, IBM was charged with restraint of competition. A 1956 settlement forced the company to restrict its operations to resale competition. But the trustbusters were back on the case in 1980 when IBM was charged with predatory pricing of computer peripherals. After 13 years of legal wrangling, the Justice Department declared that IBM's "without more" in 1982. The effect of the actions, in particular the 1956 consent decree, was to break within IBM a culture of wariness toward antitrust violations. Lawyers became involved in business decisions, creating bureaucracy and slowing the company's responses to changing market conditions. It is this effect that Microsoft fears most.

## AT&amp;T

After 107 years at the centre of US telecommunications, American Telephone and Telegraph was the world's biggest business with 5.5m customers and almost 1m employees. In 1983 it agreed with the Justice Department to break itself up to form seven so-called Baby Bells. The Reagan administration argued that the break-up would enhance competition in long-distance service, and end the cross-subsidies of local service. Since then, AT&T has built itself into a strong long-distance carrier and has suffered intense competition. The Baby Bells, which have maintained their local monopolies, are in the process of re-grouping into four companies through mergers. Three of the original seven Bells may soon be under one roof: the Texas-based SBC Communications has bought Pacific Telesis (in California) and has bid \$560m for Ohio-based Ameritech.

of urging the Federal Communications Commission to take a tough stance on the proposed \$650m merger between SBC Communications and Ameritech. The merger of the two Baby Bells, he said, was part of a trend toward "something approaching the old Bell system". That was broken up by antitrust officials in their last landmark action in 1984.

The message represents a sharp warning to the authorities to think twice before repeating the controversial decision to let through a telecoms merger. Last year, Mr Klein approved the \$23bn merger of Bell Atlantic and Nynex, in spite of concerns that the deal would reduce telephone competition in the New York area. One senate aide made his concerns clear: "They [the politicians] do not see antitrust measures from a partisan view at all. At this very partisan time on Capitol Hill, this is almost unique. There is an agreement that the laws are there to protect not only businesses but also the consumers."

The second possible explanation for the upsurge of antitrust activism is that politicians of every stripe are suddenly beginning to understand the power of the internet to transform commerce - and they are afraid of one company's dominance of it. At yesterday's launch of the lawsuit against Microsoft, Dennis

Vacco, attorney-general of New York, likened the legal action to Teddy Roosevelt's epic battle against Standard Oil.

"Antitrust laws came in the midst of the industrial revolution. Today's action comes in the midst of a technological revolution," he said. "Roosevelt said at the time that both the biggest company and the richest man, like the humblest private citizen, must be held to obey the law in order to ensure the protection of the law for all."

It is this that seems to lie behind the remarkable reversal of some leading free marketeers to the anti-Microsoft cause. The most influential of the recent conversions is Robert Bork, the former federal judge. As a antitrust thinker of the Chicago school in the 1970s, he advocated minimalist government action for two decades before urging a lawsuit against Microsoft last month.

"There seems to be a widespread impression that the Microsoft controversy should be resolved by an ideological litmus test" he wrote in the New York Times. "Liberals are bent on punishing success, and conservatives must defend Bill Gates's company from any application of the antitrust laws. But the question is not one of politics or ideology; it is one of law and economics." He was joined by Bob Dole, the former presidential candidate,

whose U-turn in policy was even more stark. In a 1986 speech to the senate, Mr Dole even castigated the Justice department for pursuing Microsoft. Now he says Microsoft's alleged attempt to dominate the internet are "unfair to consumers". Both Mr Bork and Mr Dole are paid consultants to Microsoft's rival, Netscape Communications.

The third explanation is that the antitrust authorities have simply become far more activist because they sense that trustbusting is palatable to politicians and the public in a prevailing atmosphere that supports free-markets and is suspicious of both Big Government and Big Business. Hence, while the Justice department always stresses that detailed analysis of individual markets and companies underpin its actions, officials also see a wider policy role.

For Mr Klein, antitrust policy is not merely a means of prosecuting illegal monopoly behaviour, such as predatory pricing or exclusionary contracts. It represents one of the US government's most important tools for managing the economy.

"I think there is a general consensus on Capitol Hill that supports recent antitrust enforcement," said Mr Klein. "Antitrust is the preferred form of government intervention in markets, precisely because it aims to be -

and should be - non-regulatory. We should stop companies using their market power to basically tip the playing field in their direction."

In terms of antitrust history, today's Justice department is hardly as politically motivated as the golden trustbusting era of Teddy Roosevelt. At the same time, legal experts acknowledge it is more interventionist than the Reagan administration, in the last comparable period of merger mania. Although AT&T was broken up (by a New York court) during the Reagan administration, the case had been launched years before. In general, the Reaganite principle was to keep government off the backs of business, and the relatively low number of cases brought in the late 1980s reflects that policy.

In spite of his high profile attack on Microsoft, Joel Klein argues his policies are not extreme. "I do not see myself as an aggressive antitrust enforcer," he said. "In the politics of antitrust enforcement I am in the middle of the spectrum." Instead of regulating industries, Mr Klein says he prefers "surgical intervention" in the marketplace.

The fourth explanation for the revival of antitrust action is that it comes from new ways of looking at markets. Karen Grimm, antitrust partner at Sutherland, Asbill and Brennan in Washington, says that trustbusters have more sophisticated computer modelling to assess the impact of mergers. This is especially important as the current wave of mergers presents new problems as companies seek to concentrate their share of specific markets.

"There is a resurgence of antitrust as well as a lot of big mergers," she says. "But today's very large mergers of companies with very large market shares and oligopolies are very different from the mergers of the 1970s and 1980s, when they involved big conglomerates. If the agencies do not challenge some of these mergers they do not have a lot of credibility."

At least part of the new confidence among US trustbusters is drawn from an economic theory of "network effects". The gist of this is the claim that, in high technology sectors and communications in particular, a single monopoly can extend its dominance into new sectors.

This theory is controversial. Robert Levy, senior fellow of the free-market Cato Institute and a former chief executive of a small software company, says: "These theories do not hold water in the software industry. The whole Microsoft case should be scrapped lock, stock and barrel. This is not a capital intensive industry, it is ideas and the human intellect. Nobody has a monopoly on that, least of all Microsoft."

Meanwhile, the trustbusters have already moved further afield. The Justice department is concerned that its national jurisdiction cannot cope with cross-border monopolies and cartels. It already works closely with the European Union's competition authorities.

Janet Reno, the US attorney-general, has set up an international antitrust committee of business people and academics to square the circle. Within the next 18 months, the independent advisers are expected to draw up a blueprint for how US domestic antitrust action can fit into an international framework. If the trustbusters have their way, it seems, the antitrust policies of the US might soon be influential abroad.

## OBSERVER

## Helmut at home in Bremen

No flashing lights, no specially composed anthem: Helmut Kohl was determined that yesterday's congress of his Christian Democratic Union should eschew the gimmicks used by Gerhard Schröder when he was enthroned in Leipzig last month as the opposition Social Democratic Party's challenger for the chancellorship. But even Kohl's desire to emphasise conservatism and continuity could not stop some razzmatazz creeping in. The 10-minute standing ovation was almost certainly a record, and there was more than a whiff of stage management about the chants of "Helmut, Helmut" and the giant banner saying "Do it again Helmut".

Kohl probably deserved the accolades. His two-hour speech was well-constructed and well-delivered. At 88, he looked fit and tanned and showed none of the signs of age and fatigue that marked his address to last autumn's CDU conference.

Perhaps it helped to be in Bremen, which has become a symbol of his ability to come off the ropes fighting. At the 1988 CDU congress there, he saw off the only significant internal party revolt of his 16 years of power and went on to unify Germany the following year.

Kohl needs all the good fortune

he can get. He enthused the faithful yesterday, but his poor opinion poll ratings suggest that he has yet to convince the German people that he is the man to lead them into the 21st century.

## Call me modem

It was good to see US attorney-general Janet Reno in command of her troops yesterday lining up for the battle with Microsoft. If only she was also in command of the technology on her own desk - apparently her office computer has got her lost.

In Miami, where she was state attorney-general in the early 1990s, she wasn't exactly queen of the keyboard, but was "fairly fluent" with her computer. But things got complicated when she arrived in Washington.

"It got so confusing as to what was on the computer or what wasn't, what was on the hard drive and what was on the soft drive, that it made it easier for me just to work with paper and pencil so I could figure out what I had and didn't have," says the woman who is gunning for Bill Gates.

So forget that computer desktop - it seems that a simple wooden one will do.

## Webbed feat

...Reno may not be a PC's best friend, but her Justice department's website looks like it has had a makeover, maybe preparing for all the hits it's going to be taking from

Microsoft's allies and enemies over the next few days.

The site ([www.usdoj.gov](http://www.usdoj.gov)) used to be just as tedious as all the other US government sites: they tend to look as if bureaucrats and technocrats are bringing out the worst in each other.

Now there's a welcoming homepage with links to places like "luggage and missing persons", which includes pictures and gory stories about the 10 most wanted criminals and the rewards for shopping them. There's a "what's new and hot" section (yesterday the "hot topics" page was a trifle tepid, as it hadn't been updated for 10 days) and a "justice for kids and youth" area with lots of cartoons and badges.

Internet surfers will appreciate the absence of those annoying buttons saying things like: "Best viewed with MS Internet Explorer." In the circumstances, that isn't really a surprise.

## Virtual reality

Urbane, patrician Maurice Lippens, co-chairman of Belgo-Dutch financial services group Fortis, is trying to smooth the feathers left ruffled by the less-than-amicable merger talks with his new partner, Générale de Banque.

He has suggested the negotiations were "like playing rugby. You get socked in the eye during the game, then you all go out and have a drink afterwards." The directors of Générale, who have been dragged kicking and

screaming into the deal, probably don't feel much like sipping a *bière blanche* with anyone.

Yesterday Lippens was seeking inspiration in Magritte, the surrealist whose centenary falls this year. In an attempt to discourage suggestions that Générale was actually being taken over by Fortis, he likened the deal to the famous Magritte paintings of a pipe, which bear the words: "Ceci n'est pas une pipe."

"This is not a takeover," he insisted. "It is a merger." Like those pouring into the big Magritte exhibition in Brussels, students of the Fortis-Générale deal will be looking for the meaning behind the picture.

## High note

Fancy penning a ditty? Mozambique has decided that it needs a national anthem that can be sung without imperilling economic development.

The current number has a decent tune, but the words are all about burying capitalism and exploitation. It's not easy for ministers to sing along in front of the multinational executives they keep wheeling in to discuss a spot of inward investment.

A competition has got under way to find a national anthem that gives a general blessing to virtues like national unity, independence, the heroism of the Mozambican people, work, equality and peace. Something, in short, to strike a chord with everyone.

## Financial Times

## 100 years ago

**Selling Socks To China**  
A careful eye should be kept by British manufacturers on the opening up of the upper waters of the Yang-tze River, as American and European trade will doubtless play an important part in the developments there. Reference is made in a report on the trade between the United States and China by Her Majesty's representative at Washington to the development of the hosiery trade in this connection. Amongst the Chinamen who have had any intercourse with Europeans there has been of recent years a rapidly increasing tendency to adopt the woven sock of foreign make.

## 50 years ago

**Losses By French Industry**  
Paris, May 18. In reply to a written Parliamentary question, the Finance Minister, M. René Mayer, revealed how the principal nationalised industries have fared since they have been under State ownership. With the exception of the four nationalised deposit banks, losses have occurred in all cases, and in some instances, even in spite of huge Government subsidies. In the coal mines the position is particularly unfavourable.



## THE LEX COLUMN

## Rouble roulette

Russia has ridden out bouts of market jitter in the past and will probably do so again. But there are still ways in which the current mini-crisis could descend into a full-blown one. Indonesia's agony is an uncomfortable backdrop; with investors fleeing to quality, the spotlight has again been shone on Russia's own debt problems. The government is finding it hard to collect taxes from its people, as yesterday's figures rammed home.

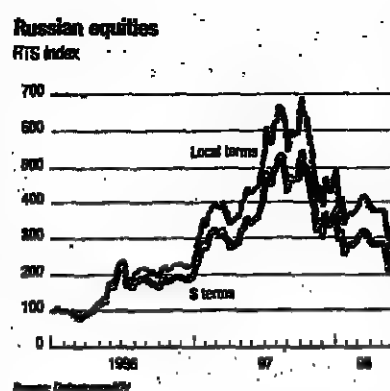
The signs of distress are less in the plummeting stock market than in the fact that yields on short-term government debt are now above 45 per cent. With inflation below 10 per cent, real interest rates are punishingly high. This could potentially lead to a vicious cycle in which debt-servicing costs rise so high that the new government's apparently sincere efforts to rein in its budget deficit are defeated. Eventually, investors could refuse to buy government paper, leaving the authorities no choice other than to allow the money supply to rip.

Before that occurred, pain would be felt in the foreign exchange market. Unlike Asia's tigers, Russia does not have a foreign currency debt problem, but it has a foreign debt one. If outside investors decided to liquidate their large holding of government bonds, the government's foreign exchange reserves would be quickly exhausted. That would force a devaluation of the rouble, undermining the government's entire stabilisation policy.

## Suez Lyonnais des Eaux

The fall in Suez Lyonnais des Eaux's share price yesterday is a useful reminder that, no matter how fine the strategy sounds, the price needs to be right too. No one is going to argue with Suez Lyonnais's mission to refocus on utilities. The urgency with which the management is reshaping the portfolio had definitely earned the stock its 30 per cent-plus outperformance of the French market since October. But only the most stubbornly nationalistic Belgian shareholder is likely to shun the 31 per cent premium - to Friday's expected close - that Suez Lyonnais is offering for the minority of Soci t  G n rale de Belgique.

The immediate quibble is that Suez Lyonnais's earnings will not go up as much as was hoped from the simple act of



consolidating more profits from its main prize, the energy group Tractebel. But it would be churlish to grumble too much about this. Tractebel is crucial to Suez Lyonnais's international expansion plans. More important is how wisely it invests in this core activity from here on, and likewise in the water business. These ambitions help explain why the SGB offer is all in shares; some powder is being kept dry. But as Suez Lyonnais can also fund expansion by disposals, scope remains to tighten up the balance sheet once French rules on buybacks are liberalised. It should be bold and scoop back in the bulk of the shares it is issuing.

## Citigroup

It has not taken long for the rapture to fade. When Travelers and Citicorp announced a merger, enthusiastic investors marked up their combined market value by \$30bn to \$150bn. Six weeks later, barely \$7bn of that increase is left - almost all of it in the share price of Citicorp, which provided some good quarterly figures in the intervening period. Yet the stock market has been flat and the deal has faced no unexpected regulatory or other upsets.

Clearly the market whipped itself into a frenzy on the first day, mesmerised by the boldness and sheer size of the new Citigroup. That excitement has rightly given way to worries about how to merge and manage such a complicated financial supermarket.

Is the market now getting it right? The

management has promised a \$1bn boost to earnings by the end of 1999. Admittedly, most of that will come from cross-selling benefits, which are less certain than cost savings. Even so, putting the \$1bn on a multiple of only seven looks harsh. While knitting the two together on the consumer side will take time and patience, gains from handing Citicorp's corporate client list to Salomon Smith Barney's investment bankers should come quite quickly. And so far, the senior management appointments have gone smoothly, with no loss of talent from either side. Having been over-enthusiastic initially, it now looks as if investors are being too gloomy.

## Withholding tax

Some European Union governments are good at frightening their citizens into declaring and paying tax on European-held savings. Some are not so good, and want to crack down on the tax-dodgers once and for all. The big idea is contained in a European Commission draft directive. The snaggy document suggests that EU countries do one of two things: they either impose a withholding tax at source, or they pass on the relevant information to other member states.

Not only is this an inefficient way of dealing with the problem but it could also hit the issuance of European bonds, damaging the European capital markets' competitiveness.

First, the proposals do not fully tackle the problem. Banking secrecy laws mean a number of EU countries would not be able to swap information on bank accounts and interest payments. And a withholding tax would simply push investors to keep their savings in non-EU countries, such as Switzerland.

But it is the damage this move could have on the eurobond market in the EU that should send the drafters of this directive back to the drawing-board. Under the proposal, issuers of European bonds will surely end up bearing some of the administrative cost of implementing the withholding tax. In an international market, such as that for eurobonds, issuers and investors will simply move to more efficient markets, such as the US. The EU tapers with the free flow of capital at its peril.

## Indonesian parliament's speaker tells Suharto to go

By John Ridding and Samir Thomas in Jakarta

President Suharto's 32-year grip on power in Indonesia suffered a severe blow yesterday when a parliamentary leader demanded he resign.

The surprise call by Harmoko, the speaker of parliament and an ally of Mr Suharto, prompted expectations of an imminent departure by the Indonesian leader after weeks of protests.

However, General Wiranto, Indonesia's top military officer, dismissed the parliamentary demand, raising the threat of confrontation between the armed forces and civilians. "Based on the country's constitution, the statement has no legal basis," he said.

He said the demand represented only the views of individuals.

In spite of his comments, there is a growing belief that Mr Suharto will soon be forced from power in the wake of riots which left more than 600 dead in Jakarta last week.

The unrest has been fuelled by demands for political reforms and anger over a deepening economic crisis. Students resumed protests

yesterday as several thousand demonstrators at the parliament and delivered a petition urging Mr Suharto's departure.

Amien Rais, a Moslem leader, said millions would protest tomorrow, the anniversary of the nationalist movement. "Suharto must go: the sooner the better," he said.

The impression of a leader under siege was underlined last night when tanks and armoured personnel carriers arrived outside Mr Suharto's house to reinforce the presidential guards. However, Mostofij, Indonesia's intelligence chief, said Mr Suharto remained "calm" and would explain political developments today. This would break a public silence maintained since he returned early from an official trip last week.

While some viewed Mr Harmoko's statement as a sign the succession process was under way, diplomats and bankers were cautious.

"Even if this really is the start of the succession, it might take time, and Suharto may impose conditions," said one diplomat. "He has never looked like going easily."

Bankers and diplomats said they believed Mr Suharto's departure was

necessary for recovery, but they had concerns about transition. "There is no clear successor, and a real danger of a power vacuum," a diplomat said. "It is far from clear that the procedures and personalities of succession would be acceptable to students and political opponents."

General Wiranto's statement tightened the focus on the military as the most important power broker in Indonesia. The general, viewed as a possible successor to Suharto, is believed to face a challenge from Mr Suharto's son-in-law, General Prabowo Subianto, who met the president until late last night.

"Factionalism among the military is now my biggest fear," said an investment banker. "That would lead to a shooting match." Fears of more unrest prompted a sharp fall in Jakarta's markets yesterday. The stock market lost more than 10 per cent to below 12,000 to the US dollar, while the stock market lost almost 3 per cent before rebounding after Mr Harmoko's statement. Companies linked to the Suharto family were hardest hit.

Call to delay debt talks, Page 5

## G8 leaders' silence helps send yen to lowest level since 1991

By Gillian Triff in Tokyo and Richard Adams in London

The Japanese yen yesterday fell to its lowest level against the US dollar since 1991, weighed down by upheavals in Indonesia and lack of support from the Group of Eight summit.

When markets opened, traders justified to sell the currency - spurred by the absence of references to the yen in the G8 communiqué and confirmation by US officials that US and Japanese leaders did not mention the exchange rate at the meeting.

Further bad news about the credit crunch, caused by the banks' efforts to improve their balance sheets, intensified the pressure on the yen, which fell by more than 1 per cent.

During Tokyo trading hours, the yen fell from ¥188.95 to ¥186.4 against the dollar, and continued falling when the London and New York markets opened. By the end of trading hours in London, the yen was worth ¥183.11, its weakest rate against the dollar since September 2, 1991. Paul Chertkov, chief currency

strategist at the Bank of Tokyo-Mitsubishi in London, said the yen's weakness was "a consequence of a policy mix that does not appear to be working".

Ryutaro Hashimoto, prime minister, said Japan was not slipping into a deflationary spiral, but admitted the economy was deteriorating. His management of the economy prompted three leading opposition parties to agree to submit a motion of no confidence in parliament. If the motion were to be passed, Mr Hashimoto would be forced to step down or call a snap election.

Haruhiko Kuroda, a senior finance ministry official, warned Japan "was prepared to take appropriate measures" to defend the yen. But traders reported that the Bank did not intervene in the market, and London analysts dismissed the statement as "lawbusting".

The currency has also been weakened by speculation the Bank of Japan might cut interest rates at its meeting today. But several members fear a cut would further weaken the

yen. Rates have been at 0.5 per cent since the end of 1996. And the yield on the 10-year benchmark government bond yesterday fell to a record low of 1.955 per cent.

Osamu Watanabe, a trade minister, blamed the yen's weakness on Indonesia's economic crisis. The Indonesian currency has become untradable, according to emerging markets brokers in London. With no reliable offers, market traders talked of the rupiah being priced at about Rp12,500 to the dollar.

The impact of the crisis fell most heavily on Russia. The country's central bank was forced to put out a statement affirming its support for the Russian banking system.

The rouble came under speculative attack, but Oleg Vyugin, Russia's deputy finance minister, ruled out devaluation. "We are going to prevent attacks against exchange rates and this is why we have 50 per cent yields today on the domestic market," he said.

Monsoon plunges, Page 21

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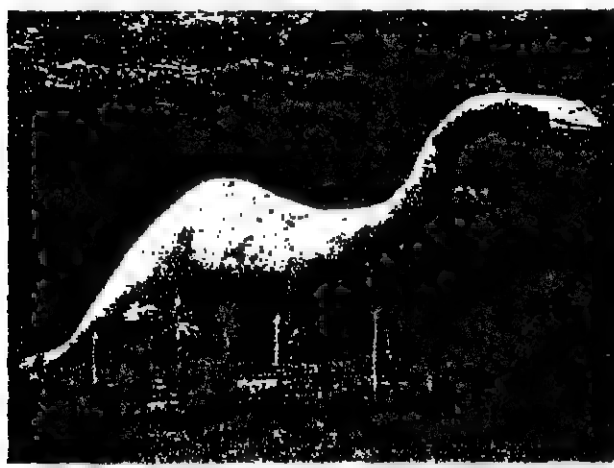
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This statue of Colombia's now dead drug lord Pablo Escobar, boasting fables such as this dinosaur, has been given to poor families. Page 7 AP

## FT WEATHER GUIDE

## Europe today

Northern Scandinavia will be cold with showers and mountain snow. More southern parts will be mostly fine. The eastern Alps and eastern Austria will have showers but the Balkans and south-east Europe will have thunderstorms. The Iberian Peninsula will have spells of hot sun but scattered thunderstorms will develop inland. The central Mediterranean, France, the Low Countries, Germany and the western Alps will be fine with lots of strong sunshine.

## Five-day forecast

Cold air over northern Scandinavia will push southwards, reaching the Low Countries and northern Germany by Friday, bringing a few showers. North-west Europe will stay fine but temperatures will drop later. Spain and Portugal will remain hot but thundery. The Alps will become wet by Friday.



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# COMPANIES & MARKETS

THE FINANCIAL TIMES LIMITED 1998 TUESDAY MAY 19 1998 Week 21

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## INSIDE

**GEC-Alsthom puts hopes in Eurotrain**  
GEC-Alsthom, the Anglo-French transport and engineering company that is due to be floated, is facing a shortage of orders for the TGV, its high-speed train. That partly explains the importance attached to this month's successful demonstration in Germany of the so-called Eurotrain system, which may be bought by Taiwan. Page 22

**Proton faces test on tariff removal**  
The Asian economic crisis has dented demand for Malaysia's national Proton car, despite recent sales promotions. But analysts say Proton must undertake extensive restructuring to prepare for 2003, when it faces a stiffer challenge - the removal of tariffs on foreign cars. Page 28

**Karachi awaits bomb decision**  
Pakistan's stock market continued to fall on worries over the economic outlook if a decision to go ahead with a nuclear test brought US-backed sanctions. Share prices have fallen more than 11 per cent since last Monday's nuclear tests by India brought heightened tensions across south Asia. Many analysts say the concern is that foreign investors will pull out at the first sign of US sanctions. Page 44

**Argentina mining prospects blighted**  
With big projects scheduled and a strong exploration effort, mining in Argentina seemed set for rapid development this year. But lower metal prices, rows over royalties and the after-effects of the Bre-X scandal have slowed exploration and raised questions over some projects. Page 34

**Endesa launches public offer**  
Endesa, the Spanish power group, has launched the registration period for its record-breaking P1a1,164bn (\$7.7bn) privatisation. The sale, at current market prices, is double the size of an offering of Endesa shares last October, which set a benchmark for Spain's capital markets. Page 32

**Milan falls as stocks go ex-dividend**  
Early weakness on Wall Street and continuing tensions in Asia contributed to a weak stock market performance in Milan. The index was also affected after 80 stocks went ex-dividend. Page 44

**Pressure mounts for Opec cuts**  
Pressure is growing on the Organisation of Petroleum Exporting Countries to make fresh crude oil production cuts when oil ministers meet in Vienna on June 24. But some analysts argue that such a move may be unnecessary. Page 38

**World index expands**  
From today our table on the FT/S&P World Index, an important benchmark for international investors, has been expanded to include European regional indices covering the new Euro monetary bloc. Page 41

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# Moscow stock market falls by 11.8%

By Carlotta Gall in Moscow

Worries about Russia's financial position and fears of a rouble devaluation forced a fourth day of heavy selling on the Moscow stock market yesterday. The benchmark RTS share index closed at 227.51, down 11.8 per cent and trading was suspended for 20 minutes in the middle of the day during a sharp plunge.

Trading suspended as fears of rouble devaluation prompt heavy selling

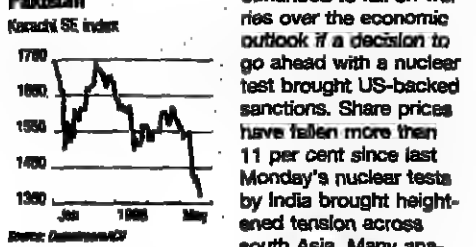
Brokers say lack of investor confidence also stems from the poor state of Russia's public finances. Tax collection is not improving and low world oil prices mean government revenue have taken an additional hit.

Meanwhile Russian miners have blocked trains on the Trans-Siberian railway for several days to press demands for payment of \$800m in wage arrears.

The central bank, which raised its Lombard rate - the rate at which it lends to commercial banks - from 30 per cent to 40 per cent for 15-day to 30-day money on Friday, said it was confident it had done enough. It was also calm about fears of a rouble devaluation.

But brokers said the last few days have increased the risk of devaluation. Nervous investors drove yields on state treasury bonds up above 45 per cent yesterday. There are fears that high interest rates will drain investment from the economy and the stock market and that the central bank will not have enough reserves to back the rouble.

Investors were waiting for some signal from the central bank that it recognises what is happening," said Par Mellstrom, the head of research at Brunswick Warburg, a Moscow brokerage firm. "But [the statement] was not enough to calm the markets."

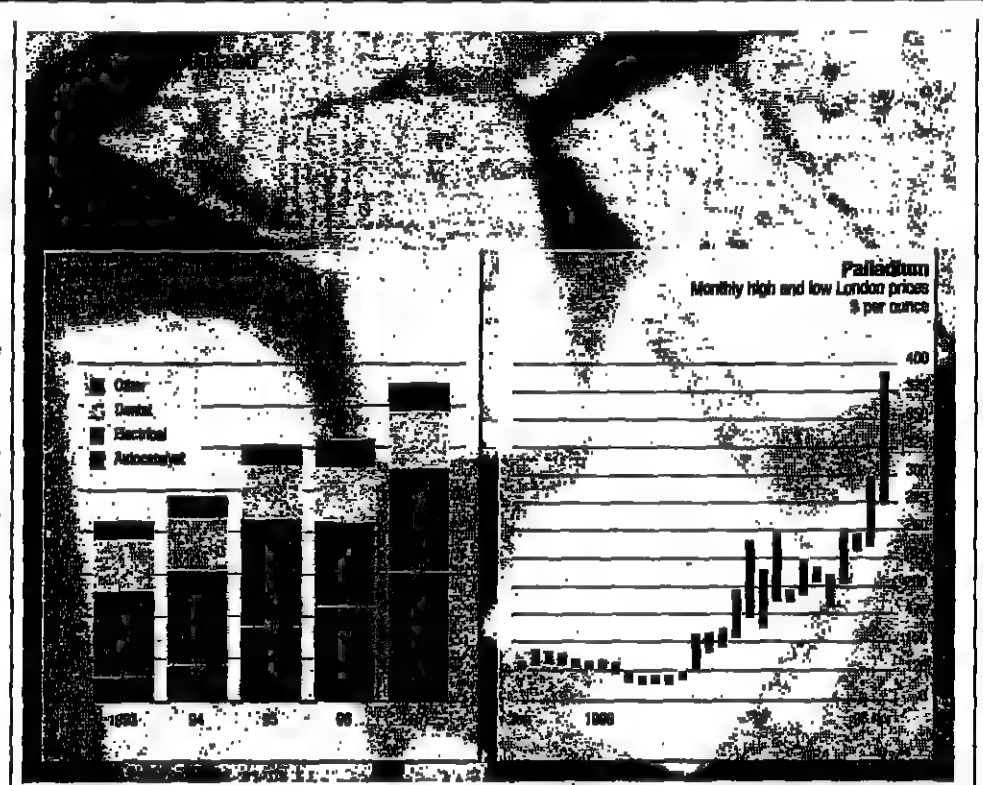


Source: Commoditylink

## Pinault in \$1.2bn deal to take over Christie's

By David Blackwell in London and Andrew Jack in Paris

Francois Pinault, one of France's most charismatic businessmen, yesterday launched a full takeover bid for Christie's International, less than a fortnight after buying a 29 per cent stake.



## Palladium hits record high as industry warns of shortage

By Kenneth Gooding, Mining Correspondent

The price of palladium, a metal vital in making mobile phones, laptop computers and anti-pollution vehicle catalysts, jumped to record levels yesterday, overtaking the price of platinum for the first time.

Short-term worries about supplies from Russia, the biggest producer, pushed palladium up to \$417 a troy ounce at its London afternoon "fixing", up nearly 7 per cent from Friday's \$393. Platinum was "fixed" at \$406 an ounce, up \$2.

At the beginning of 1997 palladium was \$320. Palladium is used in capacitors which control power supply in many electronic products and is also used as a catalyst to help reduce pollutant emissions in cars. It is closely related to platinum, but palladium has applications in electronics which platinum cannot fulfil.

Fast-growing demand for products which rely heavily on palladium will leave the world severely short of the metal early next century, Johnson Matthey, the world's biggest platinum and palladium marketing organisation, warned yesterday.

The supply "crisis" could arrive in relatively few years, said Graham Titcombe, managing director of JM's precious metals division.

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## Fortis and Suez Lyonnaise launch Belgian takeover bids

By Neil Buckley in Brussels

Two takeover bids totalling almost \$16bn were launched in Belgium yesterday, pressing both a big new European financial services group and one of the biggest corporate upheavals in the country's 168-year history.

Fortis, the Belgo-Dutch insurance and banking group, made a BFR409bn (\$10.8bn), seven-for-three share offer for Generale de Banque, Belgium's biggest bank.

Simultaneously, France's Suez Lyonnaise des Eaux unveiled a one-for-one share offer worth BFR178bn for the 35.5 per cent it does not already own of Societe Generale de Belgique, Belgium's biggest holding company. SGB has stakes in both Fortis and Generale de Banque.

The bids, both agreed with their targets, are the two biggest in Belgian corporate history in value terms. They are examples of the restructuring of Europe's financial sector before the arrival of the single currency and of the gradual erosion of national boundaries in corporate Europe.

Belgium will see SGB, its oldest and most prestigious company whose interests once accounted for almost a third of gross domestic product, fall entirely into French hands. Generale de Banque, which SGB spun off in the 1990s, will be absorbed into a larger, bi-national group.

The probable disappearance of both companies from the Brussels bourse, combined with other corporate restructuring, will rewrite the Bel-30 index of leading shares.

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## COMPANIES &amp; FINANCE: EUROPE

## UTILITIES RATIONALISATION OF ASSETS SHARPENS FRENCH GROUP'S FOCUS

## Suez Lyonnaise in Belgian shake-up

By Neil Buckley in Brussels and Andrew Jack in Paris

With two historic deals yesterday, France's Suez Lyonnaise des Eaux undertook the biggest rationalisation of its Belgian assets in 10 years, left itself more firmly focused on utilities and turned itself into more of a "Franco-Belgian" group than ever before.

Its bid for full control of Société Générale de Belgique, and the merger of two of SGB's main assets, Générale de Banque and Fortis, will leave it with two principal direct stakes in Belgium. One is a 24.5 per cent

stake, soon to be reduced to 20 per cent, in an enlarged Fortis - one of Europe's 15 biggest financial services groups.

The other is a 50.3 per cent stake in Tractebel, the fast-growing energy utility set to become one of Suez's core activities.

The moves are the latest steps in the rapid restructuring undertaken by Gérard Mestrallet since he became chairman in 1995.

In two years, he has purged Suez of loss-making assets, and transformed it from diversified holding company into a utilities business based around

energy, water, waste management and communications.

Taking full control of SGB - of which Suez has had 63.5 per cent since it defeated a rival bid by Carlo De Benedetti, the Italian businessman, in 1998 - seemed the logical next step. Given political sensitivities in Belgium, it is also the most delicate.

The loss of any remaining Belgian control of a 175-year-old company whose foundation precedes that of the state itself is a blow to national pride.

More worrying for the government is the possible

impact on Tractebel, one of the country's most important industrial assets.

Suez-Lyonnaise may be content simply to be able to consolidate 50.3 per cent of Tractebel's profits, instead of 32 per cent now - an important step towards fulfilling its pledge to double earnings per share by 2002.

But analysts predict clashes over the desire of Tractebel to be master of its own fate, and particularly to merge with Electrabel, the electricity monopoly in which Tractebel already owns 30 per cent.

A merger would create a super-utility well-placed to

take advantage of liberalisation of the European Union's electricity and gas markets. It would also, barring other changes, dilute Suez Lyonnaise's stake in Tractebel to about 30 per cent - which the French parent has made clear it will not accept.

Another question is whether both Fortis and Suez Lyonnaise des Eaux are paying too much.

Fortis' seven-for-three share offer for Générale values the bank's shares, ex-dividend, at BF24.736 - a 15 per cent premium to the average market price over the past 10 working days - and the bank itself at

BF409bn (\$11.12bn). The market response was sharp falls in Fortis' shares in Brussels and Amsterdam.

Suez Lyonnaise is offering one of its shares for every SGB share - valuing the latter at a 21 per cent premium to Friday's closing price - plus a possible additional payment linked to Suez's share price in the first quarter of 2001.

One Paris analyst called the price "generous". Reactions to any future moves regarding Tractebel may prove whether the offer has bought the French group political capital in Belgium, as well as assets.

## Zurich-BAT merger faces \$1.4bn costs

By William Hall in Zurich and Christopher Adams in London

The Anglo-Swiss financial services giant created by the planned merger of Zurich Group, Switzerland's biggest insurer, with the insurance and asset management arm of BAT Industries, will incur exceptional charges of up to \$1.4bn from integrating the companies.

The costs of the \$52bn merger, announced last October, were disclosed in listing particulars published yesterday. They were accompanied by an increase in projected savings from \$250m to \$400m, to be realised over 8 years.

Integration in the UK is likely to result in 1,600 job losses, most of which will fall in the general insurance operations of Eagle Star.

They will join Farmers Insurance, the third largest personal lines general insurer in the US, and Allied Dunbar, Eagle Star and Threadneedle Asset Management, all based in the UK.

Some \$700m-\$800m of the exceptional charges will be used to raise non-life insurance reserves of the new group. British American Tobacco, which will continue as a separate manufacturing company, will receive a cash payment of \$700m (\$1.14bn).

BAT also revealed it would take a charge of \$200m to pay for its share in the tobacco industry's settlement with the US state of Minnesota.

Staff reductions at Eagle Star, regarded by analysts as one of the worst performers among the UK composite insurers, would provide most of the projected savings.

Zurich may seek an acquisition in continental Europe to bolster distribution of retail investment products. It could also buy to expand its share of the UK life assurance market from 2 per cent to 10 per cent.

ZFS, with headquarters in Zurich, will be 57 per cent controlled by Zurich's current shareholders who will receive shares in Zurich Allied and 43 per cent controlled by BAT Industries' shareholders who will receive shares in Allied Zurich.

Zurich's investors will vote on the merger on June 11 and BAT shareholders on June 12.

ZFS will also include some of the best known retail finance brands in the US: Chicago-based Kemper Group and the New York fund manager Scudder, Stevens & Clark, both owned by Zurich.

## Fortis to restructure after Générale merger

By Gordon Cramb in Amsterdam

Fortis is to reshape its elaborate organisational structure as a result of the Générale deal.

The Belgian and Dutch Fortis units are to put their separately held assets and liabilities into the group, with each becoming only a holding vehicle.

The changes will also increase the influence of shareholders at Fortis'

Dutch arm, in line with a government push towards better corporate governance in the Netherlands.

Fortis plans to use Générale as the foundation for all its banking and investment operations. "All insurance activities worldwide will be aggregated to form the building blocks of a single Fortis insurance group," the company added. That side would be run mainly from Utrecht.

However, indicating the limits to the process, the group said: "Fortis' principal banking entities have established... insurance subsidiaries... [which] will continue to be part of the bank through which they distribute their services."

Fortis added that for both sides of the business, values of strong existing brands would be preserved. These include ASLK-OSGER in Belgium and VSB Bank north of the border.

Operational integration, due to start next January, will involve no compulsory redundancies, and savings on outlays are not promised in the first three years. However, by 2002 these should lift pre-tax profits by \$500m (\$331m) a year, mostly from efficiency gains.

"It is not earnings-enhancing straight away," said Hans Pluigen, of Kempen & Co in Amsterdam. But he added: "In the long run it

could work quite well - it is an acquisition they really needed for market power."

A single-tier board will run the group, as well as Fortis AG and Fortis Amey, respectively its Belgian and Dutch holding companies.

Effectively it is one board with three different hats," said Mr Pluigen.

Fortis Amey is opting out of a regime requiring a separate supervisory board and is conferring full voting

rights on its shares, which until now investors could hold only as depository receipts.

The economic rights of an AG share have been set at 4.5 times those of one in Amey, to create an equalisation ratio allowing for current differences in value and net asset value. Each will be entitled only to an annual dividend, subsuming the interim payment at Amey.

## GEC Alsthom puts its hopes aboard the Eurotrain

Shortage of TGV orders is forcing group to look at new markets, writes David Owen

Inside a hangar-like assembly hall in the trendy seaside resort of La Rochelle in western France, men in blue overalls are at work on metallic grey train à grande vitesse coach bodyshells.

The finished coaches should soon be playing the route from Seoul to Pusan in South Korea as part of one of the biggest export orders for the celebrated French high-speed train. The contract involves 40 so-called TGV trainsets, some of which will be built in Korea.

The first trainset, shipped from La Rochelle, arrived at its Asian destination in April.

The TGV is probably the best-known product of GEC Alsthom - soon to be known as Alstom - the Anglo-French transport and engineering company which is expected to be floated next month.

The group is likely to be valued at about \$4bn (\$6.5bn) in one of Europe's largest public share offers this year. It is currently a joint venture between Alcatel Alsthom of France and the UK's General Electric Company. The flotation will involve up

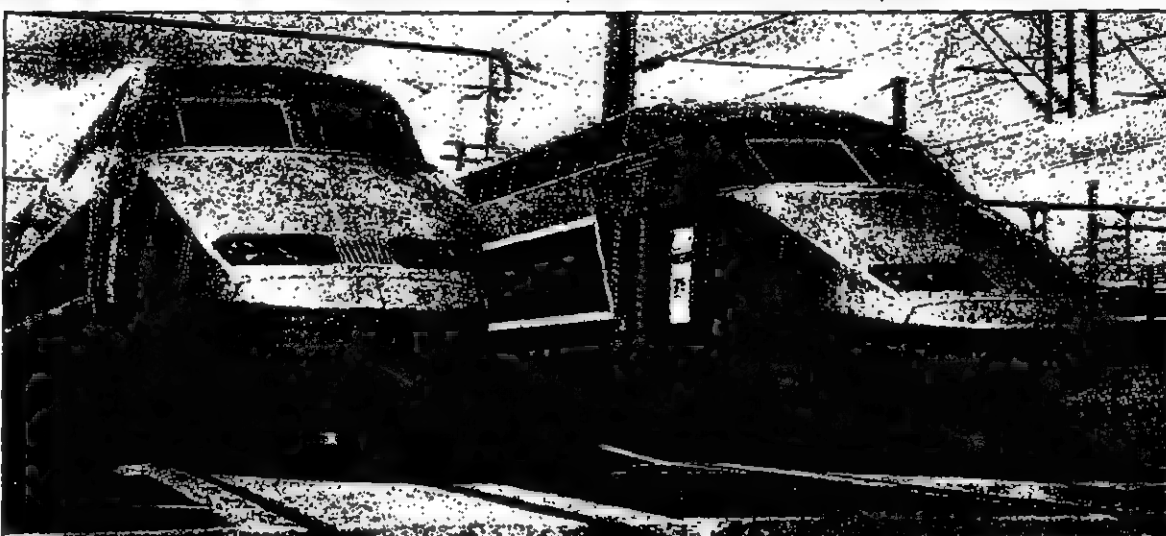
to 50 per cent of its capital.

The 1 km-long Aytré plant where the men are working has produced a high proportion of all the TGV coaches built. With 1,200 employees, it is one of the GEC Alsthom transport unit's main European manufacturing facilities. Others include Barcelona in Spain, Valenciennes in northern France, Salzgitter in Germany and Belfort in eastern France, which manufactures the TGV locomotives.

However, the TGV is now a dwindling part of the overall activity of the transport division, which accounted for more than one-quarter of the company's \$5.11bn (\$1.2bn) sales in the year to end-March 1998 and a similar proportion of its \$500m operating income.

By the group's reckoning, this puts it second in the world rail transport league with 14 per cent of the market, just behind Adtranz with 15 per cent and ahead of Siemens, Bombardier and Ansaldo with 11 per cent, 5 per cent and 4 per cent respectively.

Thierry Smaghe, manager of the Aytré plant, says



Train in value no new orders from SNCF could mean first interruption in production in more than 20 years

that in peak years "one TGV coach was being sent out of the plant every day". This year the factory will make at most 60 coaches.

Indeed, if new orders are not received from SNCF, the state-owned French rail operator, or abroad within 18 months, Mr Smaghe acknowledges that Aytré may face its first interruption in TGV coach production in more than 20 years. This could occur after the French part of the TGV Korea project is completed at the end of 1999.

The shortage of TGV orders in part explains the importance attached to this month's successful demonstration in Germany of the so-called Eurotrain high-speed train system, which may be bought by Taiwan.

The company, in partnership with Siemens of Germany, has been selected as "best applicant" for the proposed rail system linking Taipei with Kaohsiung, nearly 360km away.

The \$300m project has been described as the world's largest transport infrastructure project currently under development. According to Mr Smaghe, rolling stock would account for just under 10 per cent of the overall price tag. Denis Godefroy, strategy and industrial resources manager at Aytré, says that if the company wins the contract, "it would be twice the capacity of this factory for two years".

While it waits for the green light from Taipei, the company has worked hard to secure orders for other products. This is reflected by other work at the Aytré fac-

tory, including trams for Saint-Etienne, diesel multiple units for the French regions and even subway cars for Athens.

Transport was one of the main contributors to a 41 per cent year-on-year increase in GEC Alsthom's orders to a record \$5.11bn, thanks in part to a strong performance from the US.

The company is trying to build on this success by customising its Xiar regional express diesel multiple units for the North American market. Mr Smaghe says it is also looking at a cheaper version for Asia.

In keeping with chairman Pierre Bidger's desire to "develop further as a truly global company", the transport unit now has plants as far afield as Brazil, Poland and North America. According to Mr Smaghe, the com-

pany's west European plants are being used as "pilot sites" to enable some of these relatively far-flung plants to acquire the requisite technologies.

The relatively low volume of production for each distinct rolling stock model means it is necessary what the French call an "artisanal" process, compared by Mr Godefroy to the manufacture of helicopters or buses. There are no robots or conveyor belts at Aytré.

The plant is making sizeable efficiency strides nevertheless. Today, workshop teams make complete sub-assemblies for carriages, rather than, as before, performing single tasks such as welding, painting and cabling. Batch sizes and stocks are much smaller and productivity has improved five-fold.

## Lower Saxony to hold 25% of Salzgitter after sale

By Graham Bowley in Frankfurt

The German state of Lower Saxony will retain a stake of about 25 per cent in Salzgitter, Germany's second biggest steel producer, which it controversially bought earlier this year from Preussag, the industrial conglomerate.

Lower Saxony and Nord-

deutsche Landesbank, the public-sector bank, announced yesterday they would sell up to 60 per cent of Salzgitter in a share sale which would raise up to DM880m (\$493m).

Gerhard Schröder, prime minister of Lower Saxony and Social Democrat contender for chancellor in national elections in September, provoked controversy in January when he moved to

buy the Preussag steel division to stop it falling into foreign hands.

Mr Schröder bought the division, then called Preussag Stahl, to protect the region's economic interests. The move attracted criticism, particularly because it came ahead of regional elections which Mr Schröder eventually won.

Any sign that the share

offering is less than a success could be damaging for Mr Schröder.

Lower Saxony and Norddeutsche Landesbank together paid DM1.06bn for the business. The new share offering values the company at between DM1.2bn and DM1.4bn.

Hans-Joachim Selez, Salzgitter chief executive, insisted yesterday that

Lower Saxony would distance itself from the day-to-day running of the company despite retaining a large stake. He said there would be "no political influence on the company".

About 34.3m shares are being offered for sale at a price between DM20 and DM22. A further 3.2m shares will be offered in a "green shoe", or over-allotment,

option if demand is strong.

Nord LB and Morgan Stanley, which are arranging the sale, said the shares would be sold to give an even split between German investors and foreign institutional investors.

The new shares are to be listed on the Frankfurt and Hannover stock exchanges. Trading will begin on June 2.

## Clariant seeks to build warchest

By William Hall in Zurich

Clariant, the fast-growing Swiss specialty chemicals company, is seeking shareholder permission to raise about SF1.5bn (\$750m) of additional equity to help it finance further strategic acquisitions, following last year's SF1.6bn purchase of the specialty chemicals division of Germany's Hoechst.

Clariant, which issued 3.7m new shares partly to pay for the Hoechst acquisition, plans to create SF140m of new authorised capital. It has no immediate plans to issue the shares, but says it wants to ensure that sufficient funds are available at short notice should it want to make other acquisitions.

Roland Lösser, chief financial officer, told Clariant's annual results press conference last Friday that the

new shares would allow it to raise close to SF1.5bn in new equity. It would also enable Clariant to raise extra debt so that it could finance an acquisition of between SF1.5bn and SF1.6bn.

The company said it had no intention of diversifying away from specialty chemicals. Rolf Schweizer, chairman, also indicated that Clariant's recent sale of its superabsorbent business to Germany's BASF was the first of a series of divestments.

Clariant's pro-forma results show a 20 per cent rise in divisional sales to SF19.9bn in 1997 and a jump in net income from SF118m to SF142m. Earnings per share rose 75 per cent to SF16.05, and the group plans to raise its dividend by 40 per cent to SF14.

## BCH sets up US broking operation

By Tom Ivers in Madrid

Banco Central Hispano has stolen a march on the Latin American franchisees of its larger Spanish rivals Banco Bilbao Vizcaya and Banco Santander, by developing a private banking strategy to service high net-worth clients out of New York.

BCH said yesterday it had set up a stockbroking unit, Central Hispano Securities, as the first firm of its kind by a Spanish bank to trade on Wall Street. It added that it had acquired for an undisclosed sum Westphale Capital Advisors, an asset management group that has funded some \$331m under management.

The investments will develop an agreement last year between BCH and the Rothschild Group, the banking and investment concern, to offer a broad range of off-

shore financial instruments and investment opportunities to clients in Latin America. The Spanish bank has an established deposit gathering base through some 1,600 branches in the area operated by its local banking networks.

BCH said it aimed to be managing Latin American funds totalling Pta750bn (\$5bn) by 2000, up from a present level of Pta150bn. The bank is currently negotiating the purchase of a 51 per cent stake in Banco de Santa Cruz, the leading financial institution in Bolivia. Strongly positioned in Chile, where it controls the O'Higgins Central Hispano bank, BCH is also considering the purchase of a large stake in Banco de Galicia, an Argentine bank, through a joint venture with the Lukic group, its Chilean partner.

## NEWS DIGEST

## FRANCE

## GE Capital ruled out of bid for GAN insurance

GE Capital of the US has failed to qualify in its bid to acquire GAN, the state-owned insurance group, the French government indicated yesterday. The decision means just four contenders remain in the competition for GAN: AIG, Euroto, Groupama and Swiss Life.

Individuals connected to the tender indicated GE Capital had failed to submit the full contents of its offer by the deadline at 5pm last Friday. However, the company said yesterday its offer had been made at the start of the evening and it was a "shame" it had not been accepted.

It is also in discussions about making a bid to take control of Crédit Foncier de France, the specialist property lender. Andrew Jack, Paris

## EQUITIES

## Metzler sets up Dutch team

B. Metzler, the privately owned German bank, has hired 20 equity specialists from BZW and Credit Suisse First Boston to set up an Amsterdam-based operation in Dutch equities.

It plans to set up similar "local brokers" operations in other continental European markets such as France, Italy and Scandinavia, to fill the gap caused by the shift from national equities business to sector-based activities by big international banks.

Describing the formation of Metzler Netherlands BV as the first step in this strategy, the Frankfurt-based bank said the timing of the next moves would depend largely on the availability of other local equity specialists. Its aim is to serve international institutional investors. Andrew Fisher, Frankfurt

## INDUSTRIALS

## Barlow advances only 1%

Weak domestic demand caused Barlow, the South African industrial group, to report an increase in operating profit of only 1 per cent to R500.1m (\$88.4m) for the half-year to March despite a good performance from its international subsidiaries.

Turnover from continuing operations rose 8 per cent to almost R10bn, dragged down by sluggish spending on fixed investment in South Africa. Analysts said the results were in line with expectations.

Earnings per share, excluding exceptional items and profit on the sale of shares, in Persent Q Data, declined 7 per cent to 136.5 cents, including these items, attributable profit rose 40 per cent to R461.2m.

Most of Barlow's international businesses did well and accounted for 53 per cent of operating profit compared with 42 per cent for the same period last year.

The capital equipment division, propelled by strong economic growth in Spain and Portugal, made the biggest contribution to earnings, notching up a rise of 23 per cent. Warren Clewlow, chairman, said: "We have ensured Barlow has the resources to move quickly, should international growth opportunities arise." Greta Steyn, Johannesburg

## CEMENT

## Cimpor sale raises Es131bn

Portugal raised Es131.4bn (\$720m) yesterday from a global offering of 25 per cent of Cimpor, the country's biggest cement producer. The offering attracted huge demand from small savers.

More than 500,000 orders were placed by retail investors for almost 2bn shares. This was almost 150 times the number on offer, even after the institutional tranche was reduced from 7m to 5.7m shares to increase the retail offering from 12.1m to 13.4m shares.

The global co-ordinators, Banco Português de Investimento and Morgan Stanley, are almost certain to exercise an option to increase the institutional offering by a further 1.9m shares. The offering was priced at Es6,500 a share, a discount of 2 per cent on Friday's closing price. Most small investors also benefit from a discount on the offer price. Peter Wise, Lisbon

**NOTICE TO THE HOLDERS OF**  
**US\$200,000,000**  
**Windbond Electronic Corporation**  
(Incorporated with limited liability  
in Taiwan, Republic of China)  
2 per cent Convertible Bonds Due 2003  
(the "Bonds")  
CUSIP No. 972657 AAS CINS No. Y9SE73 AA6

NOTICE IS HEREBY GIVEN to the holders of the outstanding Bonds of Windbond Electronic Corporation (the "Company"), in accordance with the Terms and Conditions of the Bonds, that the bondholders' right to convert any bond into the Company's shares shall be suspended and shall not be exercisable during the following period (the "Suspension Period"):

The period from the close of business on January 22, 1998 up to and including May 26, 1998.

The next Consolidation Date is hereby determined as June 7, 1998. In order to be included in the aforementioned Consolidation Date, holders wishing to convert their bonds must submit their notice of conversion and the bonds no later than the close of business on June 5, 1998, at the office of the Conversion Agent.

In addition, the Company will distribute a 25% stock dividend to its shareholders and 31,997,000 shares of stock bonus to its employees on May 26, 1998 (the record date). In accordance with the provisions of the Indenture governing the Bonds, the Conversion Price will be adjusted from NT\$23.46 per share to NT\$18.52 per share effectively May 26, 1998.

Bondholders should consult with the Terms and Conditions of the Bonds contained in the Offering Circular dated March 6, 1996 for specific provisions concerning the conversion rights attaching to the Bonds.

**CITIBANK** WINDBOND ELECTRONIC CORPORATION  
By: CITIBANK, N.A. as Trustee

Dated: May 19, 1998



## COMPANIES &amp; FINANCE: INTERNATIONAL

MEDIA MARKETING PROMISE HELPS REVERSE VIACOM UNIT'S FORTUNES

## Blockbuster wins back customers

By Christopher Parkes  
in Los Angeles

Blockbuster Video is enjoying a reversal of fortunes in the US, thanks to a marketing strategy based on a promise.

By guaranteeing popular cassettes will be available with a free rental if they are not - it is drawing the customers back. Fulfilled pledges have also worked the same restorative magic on Viacom, its parent.

Although down 3% on profit-taking yesterday morning, shares in Summer Redstone's entertainment group lingered close to their 52-week peak at \$57.4 following Sunday's announcement of a \$4.6bn cash deal to sell its non-consumer publishing interests to Pearson, publisher of the Financial Times.

As with Blockbuster, where new tactics came in response to pressure from consumers, the publishing auction followed pressure from investors frustrated at the unexploited values they saw locked up in Mr Redstone's company.

However profitable educa-

tional, professional and reference books might be, they argued, they had no role or synergy to offer an entertainment company best known for MTV, *Baywatch* and Paramount Studios.

Net proceeds of about \$3.8bn will be deployed to pay down group debts, already reduced last year by 20 per cent to about \$8bn.

With the sale of Blockbuster's ill-fitting music retailing arm in prospect, the group is adopting the form of the integrated companies that dominate entertainment media.

While its corporate strategy has soothed investors, consumers have also responded quickly to Viacom's new profile in the marketplace. The success of *Thru*, produced in partnership with 20th Century Fox, gave 1997 a strong send-off.

With first-quarter losses down from 11 cents to 4 cents a share, Mr Redstone predicted an "outstanding" year for Viacom. Longer term, now that most of the misfits are being moved out, management will depend on the management of the remaining assets.



Losses out Summer Redstone predicts an 'outstanding' year for Viacom

Plays such as expanding the *Rugrats* franchise from a small-screen kids' cartoon into an animated feature film and a successful series of books show promise.

Blockbuster, too, appears

to be on the mend. Under new management since last June, by the final quarter of last year it was able to report its first increase in rentals since mid-1996. Business improved 10 per cent in

the first three months of the current year, and was climbing at a rate that suggested Mr Redstone might soon have another valuable asset to sell, should the need or the occasion arise.

## AT&amp;T, Yahoo! in marketing link-up

By John Labate  
in New York

AT&T announced yesterday a marketing pact with Yahoo!, the internet search engine, in the latest attempt by the US telecommunications company to expand its reach to online consumers.

In recent months AT&T has established similar links with other internet search engines, such as Excite and Lycos.

However, unlike those agreements, the deal with Yahoo! is more a pure "products and service" marketing plan, as it does not include any closer tie between AT&T's own internet service, WorldNet, and Yahoo!.

Terms were not disclosed, but AT&T is believed to be paying millions of dollars.

The new service will allow consumers reading one of several Yahoo! website pages to click an AT&T icon to purchase international and domestic long-distance calling services, phone cards, and wireless services.

AT&T will offer a long-distance service at 9 cents a minute to registered Yahoo! users.

The agreement also includes the use and marketing of AT&T voice-mailing technology by Yahoo!. This will expand the typed "chat room" meetings now widespread on the internet to include voice conversations. The new feature is expected later this year.

Internet search engines are considered vital "portals" to the internet. Most have added expanded services to attract more viewers for longer periods of time.

AT&T's recent agreements highlight the importance of search engines for companies in other industries looking to reach new audiences.

However, investors sent both companies' shares lower. By early afternoon, Yahoo! was down 3 3/4% to \$118.4 and AT&T lost 1/4% to \$66 1/2.

## NEWS DIGEST

## MANUFACTURING

## Eaton moves European HQ to be closer to customers

Eaton, the US manufacturing group that supplies the automotive, construction, semiconductor and general industrial sectors, is to move its European headquarters from London to Amsterdam early next year. The company said the transfer would take it closer to the bulk of its customers and that "the availability of a diverse workforce with multilingual skills was another major factor in our decision".

Stephen Hardis, chairman, said: "The Netherlands is a strong and proactive supporter of the European Community." Eaton said job losses would not be significant and that it did not expect the regional head office decision to affect its 11 other facilities in the UK, Nikki Tait, Chicago

## SOUTH KOREA

## Emergency loan for Dong-ah

Creditor banks yesterday agreed to extend a Won600bn (\$422m) emergency syndicated loan to the Dong-ah construction group, South Korea's 10th largest industrial group, to save it from collapse. The deal followed the resignation of chairman Choi Won-suk, the group's main shareholder, and a promise by Dong-ah to restructure by selling subsidiaries and property.

Dong-ah received three emergency loans this year, but was threatened with bankruptcy after it failed to secure a \$250m loan from CSFB at the weekend. Its engineering unit declared bankruptcy last week.

Dong-ah's four main creditor banks - Seoul, Korea Exchange, Shinhan, and Commercial Bank of Korea - also agreed to roll over Dong-ah's existing loans for another year and lower interest rates to the prime rate. Dong-ah's net debt to equity ratio amounted to 348 per cent at the end of 1997.

Shin Bok-young, head of SeoulBank, said the decision to save Dong-ah was based on the need to prevent a large water irrigation project the Korean construction group is building in Libya from being discontinued. John Burton, Seoul

## ACCOUNTANCY

## Cendant fires Ernst &amp; Young

Cendant, the US direct marketing company that announced last month it had discovered potential accounting irregularities that might cut its profits for last year by more than \$100m, yesterday dismissed Ernst & Young, the accounting firm that had acted as auditors for the business where the alleged irregularities occurred.

The problems occurred at the membership organisation of CUC International, the company that merged with HFS to form Cendant at the end of last year. Cendant, which had already dismissed the former CUC's chief financial officer, said that Deloitte & Touche would continue to serve as the company's principal independent auditors, and would take over responsibility from Ernst & Young for the restatement of last year's results.

Cendant said it expected to issue audited financial statements by the summer, and that its schedule would not be delayed as a result of the change in auditors. Its share price slipped slightly in morning trading yesterday, down \$4 to \$23.4. It was trading at \$42 before the alleged irregularities were announced. John Authers, New York

## SPC, Lucent in Mexican wireless deal

By Henry Tricks  
in Mexico City

SPC, the Mexican telecommunications company recently created by media and retailing magnate Ricardo Salinas Pliego, has signed a letter of intent with Lucent Technologies, of the US, to set up a national telephone wireless network.

The \$700m agreement is part of SPC's strategy to provide wireless telephony to poor Mexican households that lack access to the fixed

lines offered by Telcel, the local telephone monopoly.

TV Azteca, Mr Salinas Pliego's television company, said yesterday that under the agreement, Lucent would "plan, construct, implement and maintain" the nationwide wireless network.

It would also provide 100 per cent financing to SPC to buy the equipment and services.

SPC bid \$900m in a public auction for part of the nationwide spectrum that

uses PCS (personal communications services) technology allowing voice and data transmission over the airwaves.

Mexico's Federal Telecommunications Commission ended the wireless spectrum bidding process on May 8.

SPC plans a total investment of \$1bn over the next five years, and is targeting 10m households without access to telephone services.

According to Javier Sarro Cortina, SPC chief executive, the aim of the wireless

network is to provide a "plug and play" service to clients.

In a country where Mr Salinas Pliego says Telcel has installed lines for only about one-tenth of the 80m population, customers will be able to come into any store of his Elektra retailing chain, pay \$50 for a telephone, plug it into a power outlet at home and immediately make or receive local or long-distance telephone calls.

The radio signal towers will be built on top of the Elektra stores and the retailer, which sells white goods on credit to low-income families, will also handle the billing.

SPC says it is financing the spectrum acquisition by raising \$180m in equity capital from private investors in Mexico and the US.

It also plans to issue high-yield debt as a Rule 144A/Regulation S offering of Senior Notes, with net proceeds of between \$225m and \$275m.

## RWE - Favourable business trend continues.

Report on the first three quarters of 1997/98 (July 1997 - March 1998)

- Net income up 9.5%
- Petroleum and Chemicals, Energy as well as Mining and Raw Materials with significantly higher profits
- Divestiture of cranes and heavy-goods transportation completed
- Conversion warrants for voting right reclassification successfully placed

## Net sales

In the first nine months of fiscal 1997/98, the Group's external net sales rose by 2.1 % to DM 54.0 billion. International sales advanced strongly by 21.9 %; sales generated with customers at home declined by 2.3 %. The international share in the Group's net sales advanced from 18.1 % to 21.6 %.

Additional companies in the divisions of Energy and Waste Management as well as in Mechanical and Plant Engineering were consolidated for the first time, while the Breuer group in the Mining and Raw Materials division and the TALKLINE group in Telecommunications were deconsolidated. Sales fell by 1.2 % when adjusted for consolidation effects. In the divisions of Energy, Mining and Raw Materials as well as Petroleum and Chemicals the business trend of the third quarter was impacted by last winter's mild weather. Sales grew most strongly in Mechanical and Plant Engineering where the development in the printing press sector was particularly

pleasing owing to buoyant business abroad. Sales in the Construction division were significantly down from the year-earlier level for accounting reasons. Adjusted for consolidation effects and the varying account settlements in the Construction division, the Group's internal growth reached 1.6 %.

## Net income

In the first nine months of fiscal 1997/98, the Group's net income without minority interests rose by 9.5 % to DM 961 million. Earnings growth was strongest in the Petroleum and Chemicals division which benefited above all from higher refinery margins. The divisions of Energy, as well

as Mining and Raw Materials also significantly improved their profits on the basis of consistently continued cost-cutting measures. Apart from the special charges incurred for risks from the eastern European operations in the first six months, the Waste Management division made additional prorated provisions for further restructuring at home. In Mechanical and Plant Engineering, net income in the first nine months still fell short of the year-earlier level mainly because of outstanding accounts in plant engineering. In Telecommunications, start-up losses continued to rise; this was eased up by the prorated profit from the sale of TALKLINE and the use of the Group's provisions earmarked for this purpose. Profits in the Construction division were up on the year

before mainly on higher income from foreign investments. For all of fiscal 1997/98, we expect the consolidated net income to be again up on the year before.

## Investments

At DM 3,970 million, the Group's investments, including acquisitions, were slightly down from the year before. This was the result of lower financial investments which had been particularly high the year before due especially to our commitments at Motor-Columbus and Linotype-Hell. Important additions to the Group's portfolio of holdings in the period under review were the acquisition of 50 % of the shares in Flughafen Düsseldorf GmbH by HOCHTIEF and increases of the stakes in the Hungarian energy utilities ELMÜ and ÉMASZ. Fixed-asset investments remained unchanged in the period under review.

## Workforce

First-time consolidations lifted the number of employees by 4.1 % to 141,714. The share of the workforce employed abroad rose from 9.8 % to

19.4 % on March 31, 1998, especially through the Hungarian companies consolidated for the first time. Adjusted for consolidation effects, the number of employees in the Group fell by 5.2 %.

## Conversion warrants for voting right reclassification successfully placed

As part of the proposed voting right reclassification of our Company, the bookbuilding process for issuing conversion warrants was successfully completed on April 24, 1998. The price per warrant was fixed at DM 10.50. The overall proceeds of DM 1.425 billion are above the minimum proceeds of DM 1.15 billion as determined by the Extraordinary General Meeting.

Following the resolution of the Extraordinary General Meeting of February 26, 1998, this completes the second major step for abolishing the multiple voting rights.

Essen, May 1998

The Board of Management

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We shall be pleased to send you an interim report on the business development in the individual Group Divisions.

RWE Group	July 1997 - March 1998	Year-earlier period DM million	Change %
Consolidated net income without minority interests		878	+ 9.5
External net sales			
Energy		16,226	+ 6.4
Mining and Raw Materials		3,032	- 21.1
Petroleum and Chemicals		28,075	+ 4.3
Waste Management		1,225	+ 21.3
Mechanical and Plant Engineering		5,736	+ 29.7
Telecommunications		812	- 81.0
Construction and Civil Engineering		5,797	- 22.9
Others		33	+ 3.0
Consolidated external net sales total		52,932	+ 2.1
Germany		43,358	- 2.3
International		9,574	+ 21.9



# Nationwide launches \$1.5bn takeover bid

Credit Suisse First Boston acted as financial adviser and dealer manager to Nationwide.

he is not a starstruck brat frittering away his family fortune.

Occasionally, the Bronfmans have played into their critics' hands by making it apparent that they still see

**CHESTERTON  
BLUMENAUER  
BINSWANGER**

## DESIGN & CONSTRUCTION OF MAJOR INDUSTRIAL PROJECTS

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Office Depot, the US office products retailer, yesterday announced that it was buying Viking Office Products, a mail-order supplier, in a stock swap valued at about \$3bn. The deal continues a consolidation trend within the retailing industry, and followed a similar buy-out of a mail-order supplier by Staples, Office Depot's biggest rival in office products retailing. By mid-session, Office Depot's share price had dropped about 10 per cent, to \$31 at \$30 $\frac{1}{2}$ , while Viking had gained about 25 per cent, to \$6 at \$4 $\frac{1}{2}$ .

annual savings of \$35m next year, rising to \$55m in 2000. Nine Viking distribution centres will be closed, and the company also expects to gain from greater efficiencies in its information technology operations, and from increased purchasing power. Office Depot also expects to increase revenue by using Viking's operations in Europe, with the UK and Germany targeted for expansion. John Authers, New York

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## Gold Fields of South Africa Limited

(Registration number 0504318108)  
(Incorporated in the Republic of South Africa)  
(GFSA)

New Wits Limited  
(Registration number 0504322008)  
(Incorporated in the Republic of South Africa)  
(New Wits)

Vogelstruisbuit Metal Holdings Limited  
(Registration number 0504346008)  
(Incorporated in the Republic of South Africa)  
(Vogels)

(collectively "the Companies")

### Cautionary announcement

Shareholders of the Companies are referred to the cautionary announcement regarding the proposed Driefontein Consolidated Limited joint venture, which was published in this publication on 18 May 1998, and are advised that the boards of directors of the Companies are considering various restructuring alternatives to unlock shareholder value in the Companies. These alternatives may include, inter alia, the unbundling or disposal of assets of the Companies or entering into arrangements with appropriate partners.

Shareholders are accordingly advised to exercise caution in dealing in their shares in the Companies until a further announcement is made.

Johannesburg  
15 May 1998



RMB RESOURCES



Standard Corporate and Merchant Bank  
(A division of The Standard Bank of South Africa Limited)  
(Registration number 62/00738/04)



Standard Equities (Pty) Limited  
(Registration number 72/08365/07)  
(Member of the Johannesburg Stock Exchange)

## GOLD FIELDS COAL LIMITED

(Registration number 01/01194/08)  
(Incorporated in the Republic of South Africa)  
(GFC)

### Cautionary announcement

Shareholders are referred to the cautionary announcement dated 5 April 1998 regarding the possible merger of the coal interests of GF Coal and Kangra Group (Proprietary) Limited ("Kangra") and to the cautionary announcement, appearing elsewhere in this publication, regarding the potential restructuring of Gold Fields of South Africa Limited and its subsidiaries ("the GFSA restructuring").

Apart from the negotiations, which are still in progress, regarding the possible merger of the coal interests of GF Coal and Kangra, GF Coal could also be affected by the GFSA restructuring. Shareholders are accordingly advised to exercise caution in dealing in their GF Coal shares until a further announcement is made.

Johannesburg  
15 May 1998



RMB RESOURCES



Standard Equities (Pty) Limited  
(Registration number 72/08365/07)  
(Member of the Johannesburg Stock Exchange)

## NORTHAM PLATINUM LIMITED

(Registration number 71/03282/08)  
(Incorporated in the Republic of South Africa)  
(Northam)

### Cautionary announcement

Shareholders are referred to the cautionary announcement, appearing elsewhere in this publication, regarding the potential restructuring of Gold Fields of South Africa Limited and its subsidiaries. Northam could be affected by this restructuring and shareholders are accordingly advised to exercise caution in dealing in their Northam shares until a further announcement is made.

Johannesburg  
15 May 1998



RMB RESOURCES



Standard Equities (Pty) Limited  
(Registration number 72/08365/07)  
(Member of the Johannesburg Stock Exchange)

## THE FIRST MEXICO INCOME FUND N.V.

Curaçao, Netherlands Antilles

### Annual General Meeting of Shareholders

Notice is hereby given that the Annual General Meeting of Shareholders of THE FIRST MEXICO INCOME FUND N.V. (the "Corporation"), scheduled for April 24, 1998 at 3:00 p.m. (Netherlands Antilles time) at the office of the Corporation at 14, John B. Gonsalves, Curaçao, Netherlands Antilles, was postponed.

A new meeting has now been called to be held on May 29, 1998 at the office of the Corporation at 14, John B. Gonsalves, Curaçao, Netherlands Antilles at 3:00 p.m. The Agenda remains unchanged. Shareholders who previously submitted a proxy need not do so again.

The Agenda and Annual Report 1997 may be obtained from the offices of the Corporation and from the Paying Agent mentioned hereunder. Shareholders will be admitted to the meeting on presentation of their share certificates or vouchers, which may be obtained from the Paying Agent.

Willemstad, Curaçao, Netherlands Antilles, May 13, 1998.

### Paying Agent

MeesPierson N.V.  
Rokin 55  
1012 KK Amsterdam  
The Netherlands

## Pirelli Tyre Holding N.V.

Established in Amsterdam

At the annual General Meeting of Shareholders held on 7 May 1998 the dividend for the financial year 1997 has been set at NLG 1.75 cash per share of NLG 10.00 par value.

The dividend will be payable from 29 May 1998, less 25% withholding tax, on delivery of dividend coupon No. 4 at the following paying agents:

MeesPierson N.V., Amsterdam  
Generale Bank, Brussels  
Dresdner Bank A.G., Frankfurt (Main)  
Credito Italiano, Milan  
Swiss Bank Corporation, Zurich

Holders of shares in CF-form will be paid the dividend via the institutions where the dividend sheets were deposited on 7 May 1998 after close of business.

18 May 1998  
Pirelli Tyre Holding N.V.  
Merwede 3-N  
3621 LP Breukelen



## COMPANIES & FINANCE: ASIA-PACIFIC

EQUITIES JAPANESE MARKET'S FALL TO FOURTH PLACE BLAMED ON FALLING CURRENCY

# London replaces Tokyo as fund management capital

By Gillian Tett  
in Tokyo

Tokyo has been knocked off its position as the world's largest equity investment centre after the value of equity funds managed by institutional investors in the city plunged 32 per cent last year, to ¥1,104bn (\$8.2bn).

London, by contrast, saw funds under management surge 48 per cent to \$1,806bn, making it the largest equity investment centre in the world, according to Technometrics, a US-owned research and database company.

Boston and New York also increased their funds under management to take third and second places, respectively, in the global ranking.

Tokyo's fall to fourth place is a humiliating blow for the Japanese authorities, who had considered their capital to be one of the world's premier financial centres.

The government's "Big Bang" reform proposals are intended to make Tokyo more attractive as a financial centre.

Technometrics compiled the report from mutual fund information, stock market listings, government reports and company accounts around the world.

It blames Tokyo's decline last year in part on the falling yen. The yen yesterday touched a six-and-a-half year low of ¥135.5 against the dollar.

Tokyo's position has also suffered because the Japanese stock markets weak-

ened last year. At the same time, London's stock market index rose by about 25 per cent. This left the market capitalisation of the London Stock Exchange larger than the Tokyo stock exchange for the first time.

Tokyo's position was also undermined by the decline in other Asian stock markets.

Many equity analysts in Tokyo also said they suspected that there was a growing tendency for Japanese investors to conduct trades overseas to avoid expensive red tape.

Ken Okamura, equity analyst at Dresdner Kleinwort Benson, said: "These figures do not surprise me at all. With yen weakness

I think more capital could flow overseas out of Japan." Technometrics said Tokyo's decline represented a sharp contrast with earlier years: in 1990, Tokyo's equity assets were larger than the next 14 largest cities put together.

However, the company said that the "Big Bang" reforms could help revitalise Tokyo.

In particular, the reforms could suck up to ¥10,000bn of assets out of low-yielding bank accounts into domestic and foreign equities, it said.

London's growth as a fund management centre stemmed from the fact that US investors were increasingly diversifying into European stocks, said Technometrics.

# Packer passes control to son

By Russell Baker in Sydney

Kerry Packer, Australia's richest man, has handed day-to-day running of his media empire to his 30-year-old son, James, and appears to have tightened his grip on the John Fairfax Australian newspaper group.

James Packer was yesterday appointed executive chairman of locally listed Publishing and Broadcasting (PBL) and chief executive of the family's privately-owned Consolidated Press Holdings.

CPH holds 45 per cent of PBL, which owns the Nine national television network and Australia's largest stable of magazines. CPH also owns 45 per cent of the FXP

Trust, which has a 14.9 per cent shareholding in John Fairfax.

Brian Powers - the man whom James Packer is succeeding at PBL and CPH - has been appointed to the board of Fairfax and intends to buy a 14.9 per cent stake in FXP Trust.

Kerry Packer has long held an ambition to control John Fairfax, which publishes the Sydney Morning Herald, Melbourne's Age newspaper and the Australian Financial Review.

However, Australia's cross-media ownership rules forbid him from owning more than 14.9 per cent of Fairfax because he controls a television network.

Mr Powers yesterday severed all official links with PBL and CPH, but his appointment as a Fairfax director will be seen by many as giving Kerry Packer another ally on the Fairfax board.

Yesterday's manoeuvres sparked further speculation about the future of Fairfax, which may soon see a big change to its share register.

There has been much talk that Brierley Investments (BIL), the New Zealand-based investment group, may be looking to sell its 24 per cent shareholding in Fairfax. BIL is reviewing all its investments in the wake of the recent sudden resignations of Paul Collins, chief

executive, and Bob Matthews, chairman.

Meanwhile, James Packer's elevation to the top job at PBL and CPH is part of a wider changing of the guard at the Packer empire. PBL also announced that Nick Falloon, 40, had been appointed chief executive, a position that had been held by James Packer.

Speaking as a retiring Packer executive, Mr Powers said the "appointments transition which began two years ago. It leaves PBL with a top management team" that is "young, bright, experienced and well equipped to lead the company well into the future".

# Marubeni cuts profits forecast

Marubeni, one of Japan's leading trading companies, expects group profits to be significantly lower than forecast because of the adverse impact of the currency crisis in south-east Asia, writes Michio Nakamoto in Tokyo.

The group, which has been aggressively expanding in the region, revised its net profits forecast to ¥17bn (\$127m), from ¥30bn previously. It blamed an extraordinary loss of ¥9bn stemming from currency losses related to Indonesian and Thai interests.

The trading company has 64 subsidiaries and affiliated businesses in south-east Asia, of which 23 are in Indonesia and 16 are in Thailand. The operations cover sectors ranging from textiles, metals and construction to chemicals.

As many of these companies have borrowed funds in US dollars, the sharp decline in the Indonesian and Thai currencies has resulted in a surge in short-term debt which they need to service, Marubeni explained.

Chandra Asri, a chemicals plant in Indonesia in which Marubeni has a 21 per cent stake, is likely to be a further drain on company funds, according to Kota Nakako, analyst at SBC Warburg. Last year Marubeni had to invest \$180m in the plant, making its total investment to \$220m. However, the weak chemicals market means further support may be necessary.

Marubeni's weakened credit rating could hit its ability to raise funds at attractive rates. Moody's is reviewing Marubeni's single A-2 senior debt rating.

# Nikon hit by slow sales of chip parts

Nikon, the Japanese electronics group, yesterday announced a near halving in net earnings for the last financial year and warned that profits would fall by a further 75 per cent this year, writes Alexander Harvey in Tokyo.

The company blamed slow sales of semiconductor components and a collapse in the price of dynamic random access memory (DRAM) chips.

Net earnings dropped almost 50 per cent to ¥5.3bn (\$62m) in the year to end March. In the current year they are forecast to fall to ¥1.3bn.

Nikon predicted continued difficulties in Asia and said it would cut its dividend from last year's ¥5 a share to ¥5.

The shares slid 5 per cent to close at ¥1,007 on news

of the profits decline.

Yutaka Sugiyama, semiconductor analyst at SBC Warburg in Tokyo, warned that the industry was likely to "deteriorate" further because of overcapacity and low demand in Asia.

The semiconductor components, known as stoppers, account for more than half of Nikon's sales.

Meanwhile, a steady increase in overseas sales helped Canon, the manufacturer of factory automation equipment, to increase group net profits 15 per cent to ¥13.5bn in the year ending in March.

Turnover was up 3 per cent at ¥612bn.

Strong performances in factory control components in Europe and America, and growth in domestic sales of healthcare devices, contributed to the results.

# Patriotism not the last refuge for Proton

Restructuring is seen as the salvation of Malaysian carmaker, writes Sheila McNulty

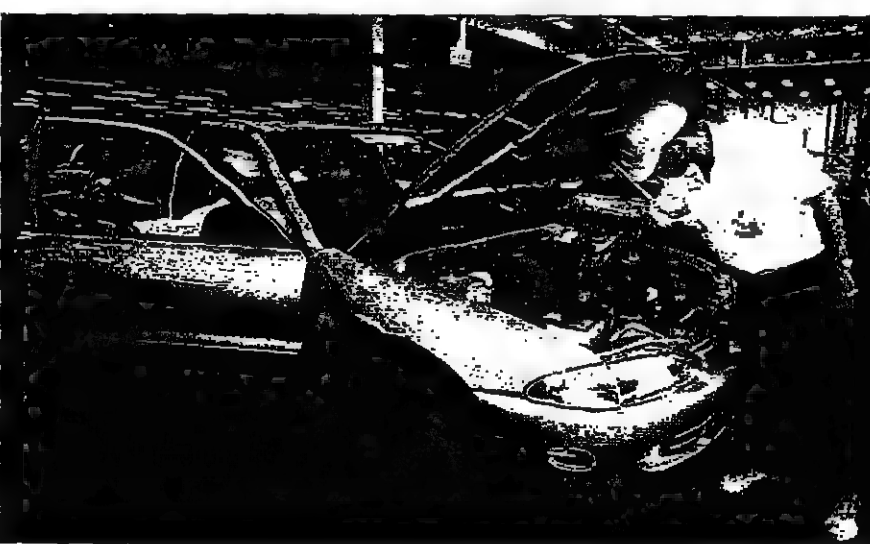
A year ago, would-be buyers of Malaysia's national Proton car faced a six-month waiting list. Those who wanted a say in the colour or accessories often had to wait even longer. Sales staff were inattentive; sales promotions unheard of.

Now, promotions are the norm: customers are readily given a choice of everything from the floor mat to the car cover, and buyers can drive a Proton off the forecourt.

The region's economic crisis has, for now, dented demand for the car, but analysts say Proton must undertake extensive restructuring to prepare for 2000, when it faces a stiffer challenge - the removal of tariffs on foreign cars.

Proton's success has been built on imprudent lending, and the financial crisis is rattling its shaky foundations. Financial institutions, which had once freely lent 90 per cent of the purchase price without demanding too much in the way of collateral, find themselves under growing pressure. As the economy has slowed, Malaysians have had trouble making monthly payments.

Repossessions are mounting and bankers growing increasingly selective in their lending. Analysts believe Proton must build key parts, such as the engine, in Malaysia to cut down on high import



Quality control: Proton has become more responsive to customers' needs to meet stiffer competition

annual bonuses and frozen pay. The company has even delayed building a M\$5.75bn (\$1.5bn) plant and town, dubbed Proton City, and is leasing plots on the project's land for Malaysians to grow vegetables.

"People buy a Proton because it's what they can afford. It's not what they want," says Jonathan Duckett, a member of the institutional sales team at Paribas Asia Equity. "They really need a product that will fight with the best of them."

That means using the expertise of Lotus, the UK carmaker controlled by Proton's parent company, the DRB-Hicom Group, to update its designing and engineering.

Analysts believe Proton must build key parts, such as the engine, in Malaysia to cut down on high import

costs. It also needs to negotiate better prices for parts sourced locally.

Most important, the carmaker must become more responsive to the needs of shareholders than those of the nation. That means retrenching staff at a time when revenue is shrinking.

However, the Proton owes its very survival to the government, and Mohd Saleh Sulong, chairman, said recently that the country's "political masters have urged employers not to be hasty in retrenching".

"Weak demand and intensifying price wars should tip auto earnings into negative territory if Proton does not cut its costs fast enough," says Jenny Yaw, assistant vice-president of Merrill Lynch in Malaysia. She projects that the carmaker's net

income will fall from 1997's M\$741.5m to M\$676.6m for the year ended March 31, and to just M\$31m in 1999.

Proton, however, is hoping its new emphasis on exports will pull it through the downturn. The carmaker expects to export 52,000 vehicles in 1998-99, up from 30,000 in the year just ended. So far Proton has not had an easy time making inroads abroad, where Japanese, European and US brands are better known.

Analysts hope the carmaker sees its salvation in restructuring and not just in its status as the national car. But there is no doubt Mr Mohd Saleh is counting on patriotism to help it through the months ahead. "The people of Malaysia do not want to see Proton fail," he says. "We have the support of everyone."



## COMPANIES &amp; FINANCE: UK

MORE GROUP INCREASES SHARE OF UK OUTDOOR ADVERTISING MARKET THROUGH ACQUISITION OF TOWN &amp; CITY

## Vivendi disposes of its 20% Decaux stake

By Andrew Edgecliffe-Johnson

The battle for control of More Group, the UK outdoor advertising company, took a further twist yesterday as Vivendi, the former Compagnie Generale des Eaux, sold its 20 per cent stake in Decaux, More's French partner.

Deaux denied speculation that Vivendi had sold its stake back to the family-owned Decaux group because it opposed the bus shelter and billboard group's

planned \$475m (£793m) takeover of More. Neither company would comment on speculation that Decaux paid only \$50m-£75m to buy the stake back, giving the family of founder Jean-Claude Decaux 100 per cent control of the group. The stake is thought to have been offered to More Group previously for between \$75m and \$100m.

Vivendi said the stake, acquired several years ago, was too small to be of strategic interest, while Decaux

said: "There is no question of Vivendi being unhappy with our bid. They told us long before we mooted this takeover that they wished to withdraw."

More Group, meanwhile, muddled the waters ahead of the UK competition authorities' impending decision on whether a Decaux takeover would create an excessively dominant company. It lifted its share of the UK outdoor advertising market by about 1% per cent through the \$7.5m (£12.5m) acquisition of

a regional billboard group, Town & City.

Roger Parry, More's chief executive, said this would give More a 25 per cent market share, while Decaux - which has a 4 per cent share - said the figure was 24 per cent.

Analysts said that Margaret Beckett, the trade and industry secretary, was unlikely to be influenced by the acquisition when she rules this week on whether Decaux's offer should be referred to the Monop-

olies and Mergers Commission.

Town & City, which had gross sales of \$7.5m last year, will give More Group 20 per cent more 96-sheet panels and 55 per cent more 48-sheet billboards.

It also emerged that More's bank debts have risen from \$40m at the end of last year to about \$100m, because of acquisitions and investment in new bus shelters.

One banker not connected to More claimed that More's

banking syndicate, led by Barclays and Chase, may have reservations about extending the facility to Decaux.

Deaux said the increase in More's debts would not affect its ability to outbid Clear Channel, which had agreed an earlier \$446m bid for More.

"We are prepared to pay a significant premium for this business, and our financing has been put in place with that in mind," the company said.

## COMMENT

## Christie's/Artemis

François Pinault has let Christie's shareholders enjoy a last blockbuster sale. At 18 times operating profits, his \$721m agreed offer is unlikely to entice other bidders into the fray. Fortunately for Mr Pinault, he does not have demanding investors to hold him to account for overpaying: Credit Lyonnais - whose 24 per cent stake in his holding company Artemis is marked for disposal - is hardly an authority on how to preserve shareholder value. Artemis has paid heavily for market leadership in an industry with high barriers to entry. With margins and profits per employee higher at Sotheby's, its main competitor, Christies has room for improvement. But with Mr Pinault reluctant to shake up its blue-blooded culture, trenchant cost-cutting is unlikely.

Where Artemis may add value is in increasing the auction house's financial sophistication as it moves further away from pure commission-based sales. Developing higher margin financial services to include more than taking principal positions and providing short-term loans to customers is one possibility. But it is hard to imagine Artemis being better at this than the financial engineers at SBC Warburg, which bid some £200m less for Christie's at the start of the year.

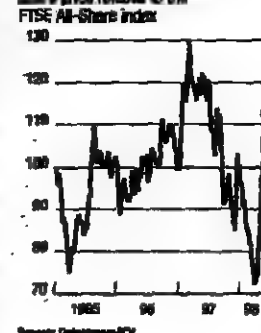
Furthermore, the international art market is at its post-1999 peak. The high prices paid for the finest objects, particularly within the key area of post-1970 paintings and sculpture, should draw out more desirable goods to keep Christies busy. But with financial uncertainties in south-east Asia and Japan leaving responsibility for growth to the continuing success of the US and European economies, Mr Pinault may find demand more elusive.

## More Group

With impolitic timing, Vivendi has thrown its 20 per cent stake in Decaux back to the outdoor advertiser's family owners at a crucial moment in their bid for More Group. Clearly, for the French utility to sell non-core holdings is sensible. But since a flotation of Decaux is on the cards, hanging on to the stake would have realised more than the rumoured \$50m-£75m. Such behaviour on Decaux's part raises questions about whether it had all its ducks in a row on this aggressive bid just days before the all-important competition ruling.

Christie's International

Share price relative to the FTSE All-Share index



## STH plans a flotation in New York and Amsterdam

By Alex Cline

Sita Telecommunications Holdings (STH), which operates the world's largest data communications network for the airlines that control it, confirmed yesterday that it was planning a stock market flotation expected to value the company between \$30m and \$3.7bn.

Some 15 per cent of the company is expected to be floated in New York and Amsterdam later this year giving gross proceeds of between \$400m and \$500m which will be used "to sustain the rapid growth of the company."

STH also confirmed that it and its subsidiaries were

changing their names to Equant in a move to develop that name as a global brand.

Sita, the Société Internationale de Télécommunications Aéronautiques, a non-profit organisation established 30 years ago to provide telecoms services for the world's airlines, owns 60 per cent of STH. Morgan Stanley Capital Partners has a 30 per cent stake with the remainder owned by employees. No existing shareholder intends to sell any part of its stake and the flotation will take place through the issue of new shares.

The price will be set by a book-building exercise. Morgan Stanley Dean Witter and Salomon Smith Barney have

been appointed joint global co-ordinators while Morgan Stanley Dean Witter will be sole bookrunner.

The change of name affects STH's operating divisions. ITS, which becomes Equant Integration Services and Novus which becomes Equant Application Services. Equant Network Services, which operates the global network, is unchanged.

Didier Delepine, chief executive, said the funds raised would buy networking capacity. He said owning network capacity would enable the company to reduce prices.

Equant came into being as the vehicle for Sita to sell extra network capacity to

customers other than the airlines. These include Shell, Xerox, the International banking network Swift and SGS-Thomson, the computer chip maker. They now account for about 45 per cent of traffic over the network.

Equant is in competition with global alliances including Concert, owned by British Telecommunications, Global One owned by Deutsche Telekom and France Telecom and AT&T World Partners.

Last year its turnover was \$30m (\$39m). Losses before tax were \$27.7m (\$30.5m), but the company had positive earnings before interest, tax, depreciation and amortisation.

## Mattel lifts bid for Bluebird

By David Blackburn

Mattel, the US toy group bidding to acquire the producer of Polly Pocket miniature playsets, yesterday topped its rival by a suitably diminutive halfpenny.

The US group's dip into Polly-sized pockets takes its bid for Bluebird Toys to 116p, valuing the target at about \$48.1m (\$80m). The shares closed up 2p at 116p.

Polly is not the only attraction at Bluebird, although she does account for 50 per cent of its sales. Her colleagues in the miniature world of playsets include Mickey Mouse, Donald Duck, and Batman.

Last week Guinness Peat, the investment company chaired by Sir Ron Brierley, raised its original January offer from 101p to 116p - 5p

above Mattel's original offer. The offer was declared final.

"That really has got to be it," said one analyst. "Maybe shareholders will actually get their money now."

Chris Burgin, Bluebird's chief executive, said he was delighted Mattel had raised its offer, which the board was continuing to recommend. Mattel at the end of last week had received acceptances for 11.2m shares, or just under 27 per cent. Among those accepting was Hasbro, Mattel's US rival, with 6.9 per cent.

Blake Nixon, a Guinness Peat director, said yesterday that the group would be accepting the offer "unless something extraordinary happened." The group had paid an average of 89p a share for its stake, so the return was "not too bad."

## Bittersweet farewell as Savoy goes west

By Scherzinger Dunschmidt

The Abraham Lincoln and Manhattan rooms were an apt choice as the venue for the Savoy Hotel's annual meeting yesterday. The 100th meeting was the last before the group of luxury hotels, which has long fought off predators, passes into American ownership.

The hotel was founded in 1889 by the impresario Richard D'Oyly Carte to accommodate visitors to the Gilbert and Sullivan comic operas staged at his adjoining Savoy Theatre.

Anthony Jones, whose love of the operas led him to buy shares 21 years ago, had travelled from Gloucestershire to be present. "It is

very sad that having fought off so many bids the management caved in so quickly," he said. "I've every respect for the Americans but it seems a shame the Savoy is going abroad."

With a gravity befitting the occasion, Sir Ewan Ferguson, chairman, told the 400 shareholders that he well understood the mixture of

emotions many felt about the \$530m (\$888m) sale to Blackstone Hotel Acquisitions, a company controlled by Blackstone and Colony Capital, two US investment groups. He offered a guarantee on behalf of the management that the Savoy and its traditions would be preserved under the new owners.

## RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total for year
Cambridge A*ody	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
Colson	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
Delepine	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
Flint Art Devs	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
Paragon	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
Ravel's Ploceability	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
RM	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
Style	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
WFF	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
WFF & Doolley	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
Young (G)	0.146 (0.285)	2.971 (8.411)	12.412 (30.51)	-	-	-	-	-
Investment Trusts	NAV (p)	NAV (p)	NAV (p)	NAV (p)	NAV (p)	NAV (p)	NAV (p)	NAV (p)
Flawless Inc & Co	154 (107.04)	8.12 (8.53)	8.54 (8.57)	1.5	June 1	1.55	5.8	3.45
HSBC Inc Growth	145.1 (115.2)	1.88 (1.58)	3.88 (3.5)	0.5	June 24	0.5	0.5	3.35
Schneider SpA	3 mths to 30	-	-	-	2.1	June 30	2.1	2.1

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. \*After exceptional charge. \*After exceptional credit. \*In increased capital. \*After exceptional reduced capital. \*Comparative pro forma. \*In stock.

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## Allied Zurich p.l.c.

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 3525388)

## Introduction to the Official List

sponsored by

Lazard Brothers &amp; Co., Limited and Goldman Sachs International

## Ordinary Share Capital immediately following the Introduction

Authorised			Expected maximum issued and fully paid
Number	Amount	Number	Amount
2,000,000,000	£500,000,000	1,573,008,983	£393,252,245.75

Listing Particulars of Allied Zurich p.l.c. have been published and can be obtained during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice up to and including the Merger Date from:

Lazard Brothers & Co., Limited 21 Moorfields London EC2P 2HT	Allied Zurich p.l.c. 22 Arlington Street London SW1A 1RW	Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB
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Copies of the Listing Particulars are also available during normal business hours from the Company Announcements Office, the London Stock Exchange, Old Broad Street, London EC2N 1HP, for collection only, from the date of this notice up to and including 20 May 1998.

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19 May 1998

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## British American Tobacco p.l.c.

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Authorised		Expected maximum issued and fully paid	
Number	Amount	Number	Amount
2,000,000,000	£500,000,000	1,573,008,983	£393,252,245.75

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19 May 1998



## EQUITIES

## Europe falls on rate worries

## EUROPEAN OVERVIEW

By Martin Dickson

Trans-European equity indices fell yesterday amid concern over US interest rate trends and political turmoil in Indonesia.

The FTSE Eurotop 300 index closed at 1,201.99, down 20.35, while the Eurotop 100 index dropped 23.54 to 1,258.75. The Ebroc 100, which focuses on companies domiciled in founder members of the euro currency zone, dipped 16.4 to 1,000.39.

A strengthening dollar and some safe-haven buying of US Treasuries helped Euro-

pean bond markets to modest gains, though the market was restrained by fears that today's meeting of the US Federal Reserve's open market committee might, against general expectations, tighten monetary policy. The benchmark 10-year German bond was quoted in late trading around 101.90, to yield 4.99 against 5.00 on Friday night.

Among equities, the best performing sector was investment companies, which jumped 6.03 per cent, thanks to a 10 per cent rise in Société Générale de Belgique, the Belgian holding company, which closed up

Euro 14.3 at Euro 157.72. French utilities group Suez Lyonnaise des Eaux announced plans to buy out the shares in the company it did not already own.

Other sectors that closed in positive territory included other financials, building materials, support services, transport and information technology.

The broad financial sector suffered from jitters over Indonesia, with retail banking off 1.97 per cent and insurance down 1.87. Pharmaceuticals dropped 2.69 per cent, with Glaxo Wellcome down Euro 0.9 to Euro 24.68 after reporting that

first-quarter profits had been hit by the expiration of certain patents and the strength of sterling. Elf Sanofi was off Euro 2.7 at Euro 102.93, while Novartis dipped Euro 57.6 at Euro 1454.73.

Oil exploration and production dropped 3.46 per cent, with Enterprise down Euro 0.3 at Euro 8.66, while automobility fell 3.39 per cent, with BMW down Euro 33.5 at Euro 966.12 and Renault Euro 1.7 lower at Euro 44.95.

Paper and packaging fell by 2.36 per cent, with Alusuisse Lonza down Euro 28 at Euro 1196.11 and BIC Euro 2.7 lower at Euro 65.29.

## FTSE Actuaries Share Indices

European series

Based on companies with the Euro top 100 index of equities

Index	Value	Change	%	Vol	Total
FTSE Eurotop 300	1201.99	-20.35	-1.69	12.04	1223.00
FTSE Eurotop 100	1258.75	-23.54	-1.87	10.04	1278.01
FTSE Eurotop 50	1000.39	-16.40	-1.64	4.50	1024.77

Index	Value	Change	%	Vol	Total
FTSE Eurotop 300 Regionals	1201.99	-20.35	-1.69	12.04	1223.00
FTSE Eurotop 100 Regionals	1258.75	-23.54	-1.87	10.04	1278.01
FTSE Eurotop 50 Regionals	1000.39	-16.40	-1.64	4.50	1024.77

Index	Value	Change	%	Vol	Total
FTSE Eurotop 300 Industry Sectors	1201.99	-20.35	-1.69	12.04	1223.00
FTSE Eurotop 100 Industry Sectors	1258.75	-23.54	-1.87	10.04	1278.01
FTSE Eurotop 50 Industry Sectors	1000.39	-16.40	-1.64	4.50	1024.77

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# Shanghai

The city has undergone a remarkable rebirth but, says James Harding, it is entering a more challenging phase of development.

## A grand appetite for change

In its short and frenetic history, Shanghai has been a city defined by ambition. From modest origins as a fishing community just 200 years ago to its renaissance as China's most dynamic commercial metropolis in the 1990s, Shanghai has fostered grand visions - dreams of wealth, western modernisation, Communist revolution and, most recently, free market renewal.

Now, it has set itself a fresh target for the next century. "The long-term objective is to be the financial, trading and economic centre of the Asia-Pacific region by 2010," says Huang Qian, senior official of the municipal Communist Party Committee, which sets the city's strategic direction.

This may be a tall order, at least in the short time the city has set itself. The foreign currency stock market is tiny, the financial services industry is largely government-controlled and industry is struggling with a hangover from four decades of Communist central planning.

But even if it takes longer than planned, the city's rise as an international commercial centre promises to change the landscape of Asian business.

Shanghai's bid to regain its past glory as Asia's commercial capital will matter to more than just the city's 18m residents and the 16,000 foreign companies that have poured in time and money: it promises to propel China into new realms of economic reform, recasting the relationship between government and enterprise as well as throwing open the Chinese market to international investors.

Ambitions have been emboldened by the city's remarkable rebirth since the central government sanctioned rapid reform and development in 1992. In the past five years, Shanghai's economy has more than doubled in size. A frenzy of construction has spawned as much new office space as in central Hong Kong.

There has been a revolution in both consumerism and communications (the number of mobile phone users will top 1m this year). Roughly one third of the city's residents now own shares in the stock market. And a tidal wave of foreign capital has given Shanghai the highest level of international direct investment of any city in the world.

The prosperity has given Shanghai a facelift. A

thicket of skyscrapers has sprouted in Pudong - the former marshes on the east bank of the Huangpu river that are being developed into a financial district - and a magnificent new museum, a vast municipal library and a gleaming new opera house are all signs of a city bursting with life.

However, realising the vision of becoming a world-class hub for international financial and commercial services will take more than the inflow of foreign money and domestic fixed asset investment that have driven growth in the 1990s. The city is entering a more challenging phase of development.

Shanghai will have to restructure its economy, substituting for the rusting blue-collar state factories of the central planning era a new generation of independent white-collar businesses that can hold their own against international competition.

In turn, the development of the service sector will mean strengthening the foundations of a free market: the rule of law, independently regulated financial markets and an open, competitive business environment.

Asia's financial crisis has

demonstrated the urgency of that challenge in two ways.

First, the humbling of financial centres across Asia has offered a cautionary tale to China's would-be Wall Street. Shanghai stood apart from the turmoil last year, thanks chiefly to China's tight restrictions on foreign exchange. However, says

the regional crisis has coincided with lacklustre domestic demand, GDP growth has slipped to its most pedestrian pace in years - 8 per cent in the first quarter of 1998, well below the average 14 per cent rate in the past five years and the target for the year of 10 per cent. The economic slowdown

"The story of this city's rapid development from mud-flat to skyscrapers and of the extraordinary personalities who had devoted their energies to it and were still making fortunes in this clammy heat would be very like a saga. Its symbol should be the clouds, of whom a Chinese poet wrote in the 11th century:

Are you not he, clouds,  
Of whom I have heard told you could transform  
Your body, magically moulding it  
To new edifice? Are you not he who, born,  
Upon the clung-heep, coveted the city,  
The clean and open air?"

Herold Aston on Shanghai from *Memoirs of an Aesthete*, 1948

Zhou Yupeng, the vice-mayor, it brought home the need for reform: "In the light of the problems that have emerged from the Asian crisis, we are trying to improve the environment for investors. We have improved the hardware - the infrastructure of the city - we need to improve the software."

Second, the knock-on effects of troubled Asian neighbours have exposed weaknesses in Shanghai's economy. As the fall-out of

has brought weaknesses to the fore - in particular, concerns about efficiency and unemployment.

About \$150m worth of foreign and domestic investment drove growth between 1992 and 1997, but it camouflaged modest increases in productivity and slow progress in dealing with duplication of industries, ownership reform and the bloated state sector workforce.

The mammoth property glut in Shanghai is a monu-

mental demonstration of the problem: over-investment in office blocks without the equivalent rise in profitable businesses to fill them.

Unemployment has become as much a feature of Shanghai as the famous construction cranes that sprouted across the city in the 1990s. Official figures consistently underestimate the problem, suggesting Shanghai's jobless are only 7 per cent of the workforce. Many economists suggest the real rate could be double that.

Shanghai's tightrope trick, therefore, is to maintain social order, while pressing ahead with the next stage of reforms. In the short term, the government is peddling a number of measures to reflate the economy. But, in the longer term it will have to push ahead with deep changes on three broad fronts.

First, China will have to give greater play to private enterprise and greater rein to the financial markets.

As Wu Xiuyi, vice-chairman of the municipal government's Development Research Centre, acknowledges, ownership reform can promote efficiency: "Collectives have a better rate of profitability than state-owned

enterprises and privately-owned ventures have a better return than collectives." But, he says there will be no rush into privatisation: "The question still is how much the state should own."

Similarly, the fledgling markets are in limbo. Established to anchor the city's hopes of becoming a financial centre, the markets have been kept on a tight leash by the central government, leaving the sense that Shanghai continues to live in Beijing's shadow. Wang Yuchun, president of Shen-yin Wanguo, China's largest brokerage house, says he would like the markets watchdog moved from the capital to Shanghai. "But, Beijing is still both the political and economic capital of China," he says.

The second prerequisite to Shanghai's development as an international financial centre is liberalisation of both exchange rates and markets. "Until China has a convertible currency, the country cannot have an international financial centre," says Brewer Stone, head of Prudential Securities in Shanghai.

Shanghai has started to open its financial services industry to foreign companies that are able to inject

competition into the doxy arm of the domestic industry. But, it has been a modest beginning.

Thirdly, the government must relax controls on the media and freedom of expression if it is to foster a culture that nourishes those high margin sectors of developed economies that thrive on innovation and imagination: information technology, television, music and film and leisure.

These reforms will require the government to give way. Economic restructuring does not necessarily pose a direct challenge to Communist Party rule in China's largest city, but it does threaten to make it increasingly marginal. A more liberalised economy may yet raise the awkward question of electoral reform in Shanghai.

For now, the government brooks no discussion of direct mayoral or municipal elections: "Direct elections in a country as big as China would never have any beneficial result," says Mr Huang at the Party Committee.

But, in Shanghai, nothing should be ruled out. The city has grand ambitions - ambitions that surely can be achieved with time and an equally grand appetite for change.



Monument to ambition: Pudong. Built on former marshes on the east bank of the Huangpu river, the district now has about as much office space as central Hong Kong and half that of central London

It's the first sign of a new era for our business

人民币业务  
Renminbi  
Service

Our Shanghai branch in Pudong was one of the first foreign banks granted a Renminbi business license last year. This enables us to provide our clients in the Shanghai area with an expanded range of banking services. Our ongoing drive to expand our network and services is just another sign of our commitment to China's economic development. For more information, please contact us in Hong Kong on tel: (852) 25222699, fax: (852) 28681645 or in London on tel: (44) 171-2600366, fax: (44) 171-2600236.

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## 2 SHANGHAI

ECONOMY • by James Harding

## The Asian sniffles settle in

Bold decisions must be taken at a difficult time to ensure continued growth

As neighbouring financial centres succumbed to the Asian flu last year, Shanghai seemed to be in good health. The city's exporting manufacturers achieved record overseas sales, retail sales reached a new peak, unprecedented foreign investments were unveiled and Shanghai's domestic stock market was the best performing bourse in Asia.

But such glorious isolation has not lasted long and, in the first few months of 1998, the signs from Shanghai are that Asian sniffles are settling in. The economy has started decelerating sharply as export growth has shrunk, foreign direct investment has slowed and weak consumer demand and chronic industrial oversupply have conspired to depress prices and squeeze corporate margins.

The slowdown has repercussions beyond the city limits. Troubles felt in Shanghai, China's largest city and most internationally integrated local economy, tend to percolate through the rest of the country.

In the longer term, the success of its transition from

the state-regimented industrial hub of a centrally planned economy to a commercial and financial services centre serving a free domestic and international market will be a critical test of China's reform process.

Looking at the 1990s orgy of new building (tables of Shanghai being home to one fifth of the world's tall cranes were, for a while, true), shop openings and fresh business start-ups, the economic activity has been staggering.

Much has changed in a short time. Shanghai's economy was kept on a short leash by the central government until 1992, when Deng Xiaoping, China's late leader, visited the city and sanctioned the economic development and liberalisation of the country's long-muzzled business centre. Since then, Shanghai has been one of the fastest growing cities in the world.

Over the past five years, GDP growth has skipped along at an average rate of nearly 14 per cent. Foreign trade has helped fuel the growth - the city's exports grew to \$14.7bn last year by comparison with \$6.5bn five years earlier. Consumer appetites have grown too, tripling retail sales in the last five years. Much of the expansion in the economy has been fuelled by investment, particularly inflows of

foreign capital which have amounted to \$28.46bn since 1992 coupled with RMB733bn in domestic fixed asset investment.

But, Shanghai has entered a difficult phase. For the first time in more than five years, quarterly growth in the first three months of this year slipped into single figures, as Shanghai's GDP rose just 8 per cent. The number of foreign investment projects has fallen 46.7 per cent compared with the first quarter of 1997.

Judging by the 88 per cent fall in orders for Shanghai-made goods from South Korea at the East China Trade Fair in March, for example, the unravelling of nearby Asian economies is set to take its toll on Shanghai's exporters.

But, the Asian crisis is only partly to blame. Problems in the Shanghai economy are largely homegrown - as will be the solutions.

Deflation has been the clearest signal of the weaknesses in the domestic economy - the city's retail price index slipped 0.2 per cent last year. Half of the problem is slackening consumer demand, as most Shanghai households bought household electrical goods between 1992 and 1995 and their incomes have not risen sufficiently to whet appetites for higher quality or new goods.

The other half is oversup-

ply. State industries overlap and China's managers still tend to focus on raising output rather than profits. Concentrating on the top line, at the expense of the bottom line, is a legacy of socialist management. But, Shanghai has added to the problems of oversupply by fostering a copycat business culture. In the early 1990s, the first amusement parks in Shanghai had healthy margins; now, most of the city's 97 theme parks are empty.

Nothing exemplifies the copycat problems of the Shanghai economy better than the property market. A bottleneck in supply in 1993/94 prompted a rash of new construction, which has delivered roughly 4m sq m more office space in Pudong alone. Vacancy rates are now among the highest in the world.

Shanghai's government knows it must reignite its economy. It has pledged to open the purse strings on infrastructure spending and industrial lending. "Accelerated capital construction is essential to maintaining Shanghai's development momentum," says Xu Kuangdi, the city's mayor. Shanghai aims to achieve 10 per cent growth in 1998.

It also hopes to spur consumer demand by encouraging home ownership and the consumption of household equipment that goes with it.

Already more than 100,000 people in Shanghai have taken out mortgages and the city plans roughly to double the amount of money available for residential property lending this year.

But longer-term remedies for Shanghai's economy require fundamental adjustments to the structure of the city's economy.

Oversupply requires the dismantling of state-owned enterprises. By the cautious standards of China's cities, Shanghai has been bold in allowing nearly 100 companies to go bankrupt since 1994. But, with more than 3m employees in the state sector, the process of closing down even the most moribund factories is delicate.

Creating new jobs is a priority and the development of the city's white collar industries, therefore, is essential. So far, the restructuring of the economy has been swift, but not swift enough to absorb the new jobseekers. The tertiary sector as a proportion of GDP has grown from 35.9 per cent in 1992 to 45.5 per cent last year.

Shanghai's development, therefore, will hinge on the government's ability to take bold, liberalising decisions at a tough time. But, to maintain growth, draw more foreign investment and soak up the state sector's unemployed, the authorities have little choice.

FINANCIAL MARKETS • by John Riddling

## In search of former fortunes

The city is gaining momentum in its development as a financial centre



The grandiose facade of Shanghai's famous Bund once fronted finance houses that dominated Asia

The grandiose facade of Shanghai's famous Bund once fronted finance houses that dominated Asia. Across the Huangpu river, the glass and steel structures of the fledgling Pudong business district mark a bid to regain that position.

"We aim to build Shanghai into an international financial centre just the way it was in the 1920s and 1930s," says Mao Yingliang, president of the People's Bank of China (PBOC) in the city. "We can combine the Bund area of the 1990s and the Pudong [the financial area of Pudong] to build that financial centre."

A series of obstacles lie in the way of this objective, as well as a sharpening regional rivalry. From Singapore to Sydney, governments are seeking a greater slice of markets and financial institutions. The crises rocking the region have not diminished their ambitions, but prompted instead a burst of deregulation.

Shanghai's history counts for little in this contest. And it faces obvious handicaps, not least the non-convertibility of the Chinese currency.

But the pace of development of the past five years has been striking, and momentum is building. "You will still find a long list of restrictions for foreign institutions," says a senior executive at one of Hong Kong's biggest banks. "What you won't find are many bankers who will bet against Shanghai."

Such sentiment is supported by the growth of institutions and markets. The total assets of Shanghai's financial institutions now exceed RMB1 trillion. Between 1990 and the end of last year the volume of deposits rose seven-fold to RMB620bn while loans totalled RMB420bn.

The capitalisation of Shanghai's A-share market, reserved for local investors, has risen to RMB1,072bn while the B-share market stands at RMB17.6bn. Shenzhen, its rival in southern Guangdong province, is snapping at Shanghai's heels but lacks the critical mass of industry and banking.

Foreigners have their foot

in the door. Since the city launched liberalisation policies in the early 1990s it has licensed 52 foreign financial institutions from 17 countries. More than 160 foreign institutions have representative offices, far higher than in any other Chinese city.

Foreign banks hold assets worth \$17.6bn and last year nine were permitted to launch local currency business. Others are set to follow. The insurance sector has also been opened, with AIG of the US quickly capturing 5 per cent of a life assurance market which has grown to about RMB6bn in terms of premiums.

More important is the shift in attitude behind these statistics. "In the 1990s Shanghai was phenomenally bureaucratic and it had the reputation of one of the hardest places to do business in Asia," says William Hanbury Tenslow, chief representative of Jardines Fleming Securities in Shanghai. "Now it is one of the most open cities for business."

While liberalisation has occasionally ruffled feathers - for instance, the speed with which AIG secured a big share of the insurance market - the process seems set to continue. "If foreign companies enter the market we will learn from their technology and methods," says Zhu Qing, general manager of the Shanghai branch of China Pacific Insurance.

"We want to see more and more multinationals and international institutions establishing in Shanghai," says Mr Mao of the PBOC. "Foreign financial institutions have been an important force in the development of Shanghai's financial system."

If the direction is set, however, Shanghai's step-by-step strategy dictates a gradual

pace. Liberalisation could become even more cautious in the wake of the turmoil sweeping the region's financial markets. Given that upheaval, a conservative stance may appear prudent, but will do little to close the gap on regional rivals.

Officials admit that, despite rapid development of the financial markets, there is a long way to go. "The gap between Shanghai's standards and international standards is still very wide," says Wu Xinyi, vice-chairman of the development research centre at the city's municipal government.

Measures are being taken to bolster Shanghai's standing. Apart from moves towards liberalisation, authorities are strengthening regulation and market structures. Under a recent restructuring, for instance, the China Securities Regulatory Commission will take sole responsibility for regulation. In the past the CSC was responsible for market regulation and the PBOC for appointing top officials.

Mutual funds have been launched as part of moves to develop institutional investment. The A and B share markets are under review with a view to legitimising some mainland Chinese participation in the market for foreigners. Local securities companies are being pressed to consolidate.

Such reforms will improve the efficiency of Shanghai's markets. Much will also depend on the resilience of regional economies. But perhaps most important in maintaining the city's momentum as an emerging financial centre is that the direction of deregulation is upheld. As Mr Mao puts it: "Financial centres are formed by markets, not by aims or intentions."



The city of cyclists and colonial architecture now has an opera house, a museum and Pudong, one of the world's largest urban developments

Lu Shi (above), PT (below)

INFRASTRUCTURE • by James Harding

## Getting a crowded city moving

As traffic jams decrease a new bottleneck is developing in telephone use

Mrs Liu, a retired factory worker, sits in her new apartment beneath the flight path into Shanghai's Hongqiao Airport and shrugs. "I've grown quite accustomed to the noise," she says. A little discomfort has been the price of development for more than 1m of Shanghai's residents, who have been relocated from downtown homes to new apartments in the suburbs as the government has cleared space for commercial projects and bulldozed

old housing areas to make way for a network of elevated expressways, underground system as well as tunnels, bridges and telecommunications lines.

Upgrading the city's infrastructure has been an imperative for Shanghai in the 1990s. Bottlenecks in the largely single-lane network meant that, as road traffic multiplied, gridlock set in and a trip across town could easily turn into a two-hour journey.

Zhou Yupeng, Shanghai's vice-mayor, remembers the aggravation in the city five years ago. "We saw traffic jams all over the place and each one could easily last well over one hour. "One newspaper even suggested that if anybody

could solve this critical issue, the city should erect a statue in their honour."

In an effort to deal with the problem, municipal spending on transport infrastructure rose from RMB716m in 1990 to RMB14.7bn in 1996. Still, the growth in spending still lags behind the exponential growth in road traffic and passenger traffic, as measured in person-kilometres, which has multiplied tenfold in the past 20 years.

Today Mr Zhou believes the traffic problem has been "basically solved". The government's ambitious infrastructure programme has created a system of internal flyovers and an extensive ringroad network to ease congestion. Today, it can

take less than half an hour to get across town and, although traffic jams are frequent, they are not an inevitable feature of travelling by car. More projects are now getting under way.

Meanwhile, the city's information networks are struggling to keep up with demand. The number of mobile phone users is set to grow by 400,000 this year, reaching more than 1.1m by the end of 1998.

Similarly, standard telephone users will grow by 550,000 to 4.3m this year, making 12.6m phone calls, 17 per cent up on 1997. And, with internet use growing at an estimated 120 per cent a year, the new bottlenecks are emerging in telecommunications.

Shanghai has also started work on a new international airport which will require investment of US\$1.2bn and should have the capacity for 20m passengers a year. It is being built in Pudong.

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CENTRAL GOVERNMENT • by James Kynge

## Not such capital relations

The long-held rivalry between Beijing and Shanghai remains intense

Popular Chinese stereotype paints Shanghai as clever, with a capacity to master detail and a delight in outsmarting their slower compatriots in Beijing.

The rivalry existing for most of this century between Beijing and Shanghai finds several forms of expression. As well as the popular prejudices, frustration derives from a central tension: that while politics in China is linked to business, Shanghai will under-achieve.

The late Deng Xiaoping, architect of China's free market reforms hinted at Shanghai's disadvantaged treatment. "The people of Shanghai are clever and accomplished," he said in

1991. "If we had made the city a special economic zone in the past, it would better than it is now."

Since then Shanghai has been awarded a special economic zone in the Pudong area, but some analysts believe the city's development as China's financial centre remains compromised by a lack of operational autonomy from Beijing.

An umbrella law safeguarding the industry's interests has been stalled in Beijing's legislative process for years. It may be passed this year but meanwhile, the stock market remains beholden to fiat emanating from the capital.

With the head offices of both the China Securities Regulatory Commission, the top securities watchdog, and People's Bank of China, the central bank, in Beijing, officials overseeing what may one day be Asia's financial centre are constantly seek-

ing direction from an outside source. This would not necessarily be a burden in a country where the rule of law is absolute but in China, where the Communist Party's power is paramount, such a relationship could hamper the development of transparent capital markets.

"Beijing has responsibility over Shanghai, especially with reference to the banking system and market liberalisation, but in some areas, there should be more say in local government," says Wu Xinyi, vice-chairman of the Development Research Centre of the Shanghai Municipal Government.

The aims of China's policymakers can conflict with the interests of financial markets in Shanghai and Shenzhen, in the south. While the free market principle dictates that capital should gravitate toward companies most deserving of it, provincial authorities are encour-

aged to allocate their strict listing quotas to state-owned enterprises needing capital infusions to reform but that are not necessarily efficient.

This means private firms, which from a market viewpoint may be more deserving, are often denied the chance to list. "Within three years, state-owned enterprises have to throw off their current dilemma and the securities markets have to serve this policy," says Chen Yaonian, vice-chairman of the CSC in Beijing.

But the time spent serving macro-economic imperatives may be time lost to regional competitors that also bank to be Asia's financial hub. "Cities such as Singapore and Hong Kong are trying to speed up their liberalisation and this creates a new challenge for us," says Mao Yingliang, president of the People's Bank of China.

In other areas, Shanghai may be seen as losing out. In

terms of industries such as computers, software, internet design, Beijing is China's undisputed lodestar. Anecdotal evidence suggests that close links to government - a key customer and regulator of knowledge-based businesses - is vital.

An intellectual axis now exists between Beijing government think-tanks, the famous Peking and Qinghua universities and a "silicon valley" area known as Zhongguancun, where many foreign computer companies have invested in research centres.

But foreigners have not ignored Shanghai, partly because of the city's strong telecom sector. "Computer companies have representative offices here and, what is more significant, they are establishing R&D centres in Shanghai," says Zhu Xiaomeng, chairman of Shanghai Foreign Economic Relations and Trade Commission.

This much is clear from the figures. The 500,000 sq m of office space at the end of 1994 has climbed to about 1.5m sq m now, with another 1m expected by 2001. Vacancy rates have soared, reaching an estimated 70 per

PROPERTY • by John Riddling

## Developers start to feel the pain

A soaring supply of space has weakened the foundations of the market

"If you build it, they will come," was the message from the sky in the film "Field of Dreams". But for Shanghai's Pudong business district - one of the world's biggest developments - there seems no guarantee that they will.

"The building boom that was very much in evidence in 1997 is giving way to a rash of completed but vacant buildings," says Morgan Stanley, the US investment bank. "Most are conspicuously lacking in human activity - a ghost city of concrete and glass."

This spells pain for the developers behind the grandiose buildings of Pudong and Shanghai's other commercial districts. But it is a heavier blow still to Shanghai's pride and its ambition to establish an international financial centre, hinged partly on Pudong's success.

Handling the fall-out will test China's commitment to market-based strategies, while the collapsing economies of south-east Asia demonstrate the dangers of bursting property bubbles.

Most believe Shanghai will escape such a fate and that Pudong will secure its position as one of the region's top business centres. But they also foresee a rough ride over the next few years.

This much is clear from the figures. The 500,000 sq m of office space at the end of 1994 has climbed to about 1.5m sq m now, with another 1m expected by 2001. Vacancy rates have soared, reaching an estimated 70 per

cent in Pudong. "These rates are unheard of in the west," says Guy Fulton, general manager of First Pacific Davies in Shanghai.

Rents have borne the brunt of the glut, more than halving since the peak in 1994/95. Sales prices have fallen less, but largely because developers are reluctant to sell into a moribund market. Nor is there sign of respite. "Prices weakened significantly last year and we expect prices were to ensure," says Credit Lyonnais Securities Asia.

This is bound to lead to casualties. Some developers have scaled back their projects. Thailand's CP group has more than halved the size of a planned shopping mall and Daewoo is among Korean groups seeking to delay their investment.

The sheer scale of supply and the backdrop of Asia's property woes should set alarm bells ringing. But Shanghai's real estate sector is not a uniform picture of gloom. "The higher quality buildings and the main locations are holding up much better," says Mr Fulton.

Other property analysts note some relief for developers in the market for middle-market residential schemes. "They are going like hot cakes," says Edward Cheung, general manager at C.Y. Leung & Co, referring to a couple of recent schemes aimed at Shanghai's emerging middle class.

Pudong also offers several causes for encouragement. Jiang Jian Qing, president of ICBC in Shanghai, the city's largest bank, cites the dynamism of Shanghai and the fact that much of the money behind the real estate boom came from foreign investors.

The continued arrival of multinationals and the

expansion of existing operations contrasts with the region. Kodak's announcement of an investment plan was the latest confirmation that many multinationals view Shanghai as the best base in China, and possibly for the region.

While exact figures are scarce, foreign developers, notably the big Hong Kong companies, have been ambitiously expanding. These companies tend to have robust balance sheets, and can endure a period of low rents and opportunity costs without being forced into a fire sale.

In Pudong, many developments are funded by state institutions such as Mofec, the ministry of foreign trade and co-operation and economic co-operation. Several big banks, such as ICBC, are also shifting their headquarters to a new building they own in the district. Foreign banks seeking to conduct local currency business are required to take at least 1,000 sq m of space.

These measures provide support in the short term. But more important considerations are Shanghai's commitment to the district and the infrastructure being put in place. A new airport is due to open in 2000, while a second underground rail line, connecting Pudong to the network, is to be launched next year.

Many believe Shanghai's bold bet will pay off. "Pudong will in 10 years be the pre-eminent financial centre in China," says Morgan Stanley. "In 20 years it could possibly rival Tokyo as the region's premier financial centre." But in the meantime, China's developers are learning the lesson of the cyclicity of property markets, with a vengeance.



## SHANGHAI 3

BANKING • by James Harding

## Arriving in a trickle

Foreign banks have plenty of strings attached and little scope for operations

China "has been very good at using foreign banks as a prod for the Chinese banks", says Chris Tibbs, head of corporate finance at Citibank in Shanghai, observing how cash-dispensing machines have appeared across the city since Citibank was allowed to install one on the waterfront.

"We wanted it for the Bund to test communication systems," he explains. "The PBOC [People's Bank of China, the central bank] wanted it in here to run round to the Chinese banks and say, 'Look out, here they come!'"

So far, though, foreign financial institutions have trickled rather than flooded into Shanghai. China's testing ground for financial liberalisation. And their capacity to act as a catalyst for the reform of China's bloated domestic banks and insurance companies helps to explain the government's slow and cautious approach.

As far as the foreign firms

that have waited long and lobbied hard to enter the Chinese market are concerned, operating licences have come with plenty of strings attached and little scope to do business.

In the banking sector, nine foreign financial institutions have been admitted to do local currency business. They are Citibank, Hongkong Shanghai Bank, Bank of Tokyo-Mitsubishi, Dai-ichi Kangyo Bank, Industrial Bank of Japan, International Bank of Paris and Shanghai, Sanwa Bank, Standard Chartered Bank and Banque Indosuez. They have all been required to establish branches in Pudong, the city's infant business district. A further 11 banks are expected to get licences to do banking business in renminbi, the Chinese currency, this year.

But they are entering a paltry market. By the end of March the nine licensed banks reported RMB assets worth \$10m, according to a central bank official. Overall, the central bank calculates that foreign banks in Shanghai hold assets worth \$17.6bn, but because the RMB banks are restricted to lending primarily from their tiny local deposits the local

currency loan business is strikingly small.

Insurance companies, too, have had to make sacrifices to enter the market. The licensing process for a licence has tended to be long, costly and political.

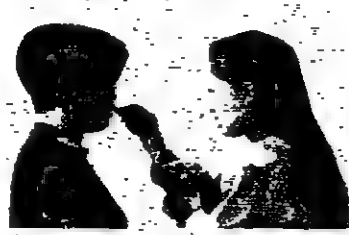
Once admitted to the Chinese market, foreign life insurers have generally been required to team up in a joint venture with a local partner. With the exception of American International Group, which secured the right to set up wholly owned life and general insurance businesses as early as 1992, foreign insurers have so far seen little reward from the promising insurance market.

Mao Yingliang, president of the central bank in Shanghai, suggests that foreign financiers and insurers must be patient. Shanghai will open its markets to foreign competition, but only in line with what domestic institutions can sustain.

"Foreign financial institutions have been an important force in the development of Shanghai's financial system, bringing capital expenditure, expertise and technical know-how," he says. "We want to see more and more, but we cannot open the market overnight."

## Consuming ambitions

Year	GDP (billion 1995)	Actual total foreign capital (billion US dollars)
1989	1511.61	3.175
1994	1951.82	3.085
1995	2462.57	5.298
1996	2802.28	7.510
1997	3380.21	8.345



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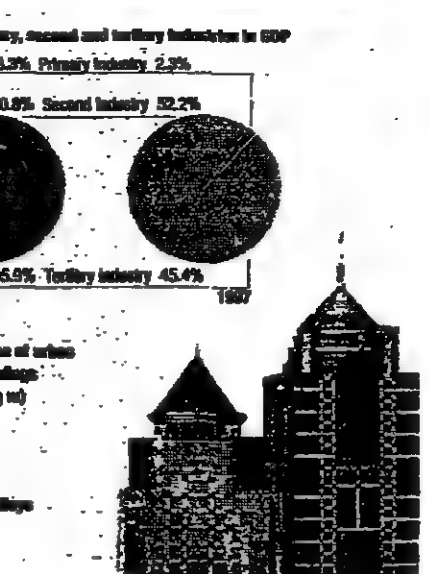
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# Questions raised over need for fresh Opec cuts

By Gary Mead

Pressure is growing on the Organisation of Petroleum Exporting Countries to make fresh crude oil production cuts when oil ministers meet in Vienna on June 24. But some analysts are beginning to argue that such a move may be unnecessary.

A meeting last week in Damascus of the Organisation of the Arab Petroleum Exporting Countries (OAPEC) demonstrated growing dissatisfaction with

current prices. Brent blend as quoted on the International Petroleum Exchange in London has lost some 30 per cent of its price since last November.

Yesterday July Brent was trading at \$14.35 a barrel, 5 cents lower than the previous close.

"The mood in Damascus among the Arab oil producers was that \$14 a barrel really won't do. I would expect that if the price does not look like moving to \$17 there will be a lot of pres-

sure within Opec to do something. I have never seen such a consensus before," said Robert Mabro, director of the Oxford Institute for Energy Studies.

However, according to one analyst, the cuts agreed by Opec and non-Opec members in March may be starting to bite, and a price recovery could be on the cards for the last quarter of this year.

Geoff Pyne, oil analyst with UBS in London, suggests that of the 11 oil-producing countries that

agreed to a production cut of 1.245m b/d from April 1 until the end of 1998, most have stuck to the agreement, with only Indonesia in serious breach. There have been minor leakages from Venezuela and some of the smaller Opec producers.

Those countries that agreed to reduce output in March, in April produced 26.38m b/d, and in May 26.01m b/d, according to UBS data. "We estimate that there is still some 300,000-400,000 b/d being produced

above the level agreed at Riyadh," says Mr Pyne. He projects a global oil surplus of 500,000 b/d during the second and third quarters of 1998, "which of course is having a depressing effect on prices".

But he argues that the Riyadh production cuts, if adhered to, should be enough to restore the price to \$17 by the end of this year, and that any more cuts could be a mistake.

"There is production capacity of potentially

another 400,000 b/d coming on the market in Algeria, Venezuela and elsewhere by the end of this year. Any more cuts will merely add to shut-in production. In the short term it could lead to higher prices, but in the longer term bottling-up this extra capacity will put the Riyadh agreement under considerable strain."

Mr Pyne argues that global growth in demand for crude oil of almost 2 per cent plus the onset of the northern hemisphere winter

"should lead to the market being in balance" by the end of 1998.

Mr Mabro, author of a newly-published report on the current oil crisis, also believes that there are grounds for optimism: "People are slightly surprised that the Riyadh agreement has been this successful, and that the promised cuts are being slowly implemented."

"The Oil Price Crisis of 1998: Robert Mabro, Oxford Institute for Energy Studies."

## Cocoa prices slip in thin volumes

MARKETS REPORT

By Gary Mead and Kenneth Gooding

Hopes by cocoa bulls that the market may be about to lift off were slightly dashed yesterday as the July future on the London International Financial Futures Exchange closed \$15 lower at \$1.41 a tonne.

Thin volumes - just 3,164 lots were traded - helped depress the market, but some specialists said the retreat was just a pause before a renewed push for higher prices.

World coffee production will fall to 90.56m 60kg bags in the 1997-98 production year, from 102.04m bags in 1996-97, according to latest estimates from the analyst F.O. Licht.

This is below anticipated world demand of 100m-101m bags and will mean a draw-down of both importer and exporter stocks. However, Licht adds that the decreased production is likely to be counter-balanced by an expected bumper Brazilian crop.

On Life the July coffee contract rose \$75 to close at \$1.995, recovering much of the ground lost last Friday.

On the London Metal Exchange speculative sales by investment funds forced down most prices.

Nickel was the worst hit, with the three-month price falling to the lowest for 4½ years, but tin, aided by severe supply tightness, was unscathed.

"The funds are hitting nickel and no-one is really willing to take them on," said a trader. Nickel lost 8 per cent of its value on the LME last week and yesterday the price fell by nearly 3 per cent from Friday's close, from \$4,977.50 a tonne to \$4,855.

## China's youth takes a shine to platinum

By Kenneth Gooding, Mining Correspondent

China's "spoilt brat" generation, products of the government's insistence that each family has only one child, is proving a boon to platinum producers.

Sales of platinum jewellery in China nearly doubled last year, according to Johnson Matthey, the world's biggest platinum marketing group, as the metal became fashionable among young, wealthy, urban Chinese.

"These single children are doted on by their parents and grandparents. They are the first Chinese to enjoy prosperity and have plenty of spending power," said Alison Cowley, author of JM's annual market survey.

"These young consumers regard platinum jewellery as elegant and sophisticated in comparison with the simple, heavy gold items bought by their parents' generation."

Manufacturers have encouraged the trend because, unlike gold, platinum supply is not controlled by the central bank, and can be imported freely. This has

enabled jewellers to expand quickly into platinum jewellery production.

Production of platinum jewellery also jumped by 75 per cent last year in the US. "The recent introduction of platinum jewellery by large retail chains and television shopping networks indicates it is now regarded as a mainstream jewellery metal in America," said Ms Cowley.

But lower world metals prices, disputes over royalties and the after-effects of the Bre-X scandal have raised question marks over some projects.

There had been great hopes for the industry. The \$1.2bn Bajo La Alumbrera copper and gold mine, the country's biggest mining project, went into production last year. The \$300m-plus Cerro Vanguardia silver and gold mine in Santa Cruz province, owned by Anglo American and Argentina's Peras Compania conglomerate, is due to begin production this year.

However, feasibility studies for both projects were conducted with metals prices way above today's levels. Another project, the \$900m El Pachon copper mine in San Luis province

## Argentina seeks mining boost

Problems mar the region's prospects, reports Ken Warr

This was going to be the breakthrough year for mining in Argentina. With big projects coming on stream and a strong exploration effort, the industry looked set for rapid development after centuries of neglect.

The country is safer than its neighbours - geologists can travel to even the most remote areas without fear of kidnapping - and the potential of the mining sector has excited big companies.

But lower world metals prices, disputes over royalties and the after-effects of the Bre-X scandal have raised question marks over some projects.

There had been great hopes for the industry. The \$1.2bn Bajo La Alumbrera copper and gold mine, the country's biggest mining project, went into production last year. The \$300m-plus Cerro Vanguardia silver and gold mine in Santa Cruz province, owned by Anglo American and Argentina's Peras Compania conglomerate, is due to begin production this year.

However, feasibility studies for both projects were conducted with metals prices way above today's levels. Another project, the \$900m El Pachon copper mine in San Luis province

has been put on indefinite hold until prices recover. Official forecasts of mining exports of almost \$800m this year and \$1.6bn by 2000, against \$30m in 1995, look likely to be disappointed.

Also, a row over royalties between Catamarca province and La Alumbrera's owners, Australia's MIM Holdings and North, and Canada's Rio Algom, has taken the shine off government claims to have created legal and fiscal stability for mining companies through a 1993 mining law.

Now, many "junior" mining companies, the smaller concerns which push forward exploration, have gone into world-wide hibernation.

Some, after descending on Argentina in 1994-95, have simply packed their bags and left. "Because there is little tradition of mining and a lack of expertise, the authorities just didn't realise that building up a mining industry takes time," said Francisco Azevedo, regional exploration manager of mining junior IAMGOLD.

The problems began even before the slide in metals prices last year. Last May's Bre-X scandal, in which a small Canadian mining company's claim to have found a 200m ounce gold deposit in Indonesia was unmasked as

a hoax, sent junior mining companies' share prices sliding and dried up exploration finance.

Exploration, as well as shifting down several gears, is moving away from the remote - and hence expensive - Andean Cordillera. "There was an initial lull, but now we will see a move to working more selectively, and in areas with better access and less extreme weather conditions," said Walter Lienhard, head of operations at training junior Minera Andes.

Deep-pocketed multinationals are continuing their exploration efforts for both precious and base metals, although even they have made redundancies. Japanese geologists have been exploring 7m hectares in Mendoza, La Rioja and San Juan provinces, but it is still unclear if this effort will produce any viable projects.

Against this background, the Catamarca royalties row is all the more embarrassing for the government, which hopes to resolve the dispute to the satisfaction of mining companies. Under the federal mining law, companies pay a royalty of 3 per cent on the mine-head value of the mineral, taking into account processing and transport costs.



However, under Catamarca's provincial mining law, those costs cannot be offset, effectively doubling royalty payments. The province claims its mining law pre-dates the federal regulations.

It is not the only provincial problem facing mining companies. Complaints over delays in processing claims are legion. Ancient pendul drawings of claim staves - when they can be found - are often unreliable.

A World Bank-financed programme which aims to put mineral rights maps and data on computer, and ease some of the administrative problems facing overburdened provincial authorities,

has been welcomed by the industry.

But there are still grounds for optimism over Argentina's mining future. It has been much less thoroughly explored than neighbouring countries. "The geological environment is interesting and the operating environment much better than other places in the region," said Stephen Davey, head of exploration at Billiton.

The larger companies look like being in for the long haul. But big and small alike are hoping for a significant new discovery. Without a new, big find, the excitement the sector once lived through may soon drain away.

### COMMODITIES PRICES

#### BASE METALS

LONDON METAL EXCHANGE  
(Prices from Associated Metal Traders)  
in ALUMINIUM, ONLY FORTNIGHT (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in ALUMINIUM ALLOY (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in LEAD (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in TIN (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in ZINC (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in COPPER (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in LONDON METAL EXCHANGE

Prices supplied by B.M. (London)

in LONDON METAL EXCHANGE

Prices supplied by B.M. (London)

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Prices supplied by B.M. (London)

in LONDON METAL EXCHANGE

Prices supplied by B.M. (London)

#### PRECIOUS METALS

in GOLD (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in SILVER (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in PLATINUM (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in RHEINMETALL (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in RHEINMETALL (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in RHEINMETALL (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in RHEINMETALL (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in RHEINMETALL (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in RHEINMETALL (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in RHEINMETALL (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in RHEINMETALL (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4

in RHEINMETALL (in per cent)

in RHEINMETALL (in per cent)

#### GRAINS AND OIL SEEDS

in WHEAT (in per cent)

	Settle	High	Low	Open
Copper	1335-4	1339-4	1335-4	1335-4
Aluminium	1335-4	1339-4	1335-4	1335-4
Lead	1335-4	1339-4	1335-4	1335-4
Steel	1335-4	1339-4	1335-4	1335-4



A-1	186		0.77	49.77
A-2	185		1.25	165.76
A-3	184		5.45	69.94
A-4	183		17.94	39.98
A-5	182		3.70	49.77
A-6	181		3.41	49.77
A-7	180		1.16	49.77
A-8	179		6.25	69.94
A-9	178		0.08	49.77

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Comedian		\$3.82	1.82		Voice
Technology		\$1.04			NAV
Technology		\$2.04	1.88		NAV
<b>STARS Fund Services (Grisold) Ltd</b>					
and Australia Res		\$80.00		47.26	US S
July 2000		\$10.00		45.80	Comp

Investment Pk	52.37	-	48817	PO Box
Express Fund Pk				Shelton
	\$0.00	-	55087	Connecticut
<b>Investment Company P.L.C.</b>				
Co	\$16.25	-	57517	For 128 F
Consumer Con	12820.55	-	58215	

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* maximum permitted 10% 5.59%					183	arrows
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Secretary	1970-73	- 5/19/89
Secretary	1973-80	- 5/27/91
Secretary	1980-84	- 2/17/90
Secretary	1984-89	- 6/11/87
Secretary	1989-94	- 5/11/87
Secretary	1994-99	- 2/17/90
Secretary	1999-04	- 5/11/87
Secretary	2004-11	- 5/11/87

Investment Pk	52.37	-	48817	PO Box
Express Fund Pk				Shelton
	\$0.00	-	55087	Connecticut
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Secretary	1970-73	- 5/19/89
Secretary	1973-80	- 5/27/91
Secretary	1980-84	- 2/17/90
Secretary	1984-89	- 6/11/87
Secretary	1989-94	- 5/11/87
Secretary	1994-99	- 2/17/90
Secretary	1999-04	- 5/11/87
Secretary	2004-11	- 5/11/87



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# LONDON SHARE SERVICE

## ALCOHOLIC BEVERAGES

Company	Price
...	...

## BANKS, RETAIL

Company	Price
...	...

## BREWERIES, PUBS & REST

Company	Price
...	...

## BUILDING MATS. & MERCHANTS

Company	Price
...	...

## CHEMICALS

Company	Price
...	...

## CONSTRUCTION

Company	Price
...	...

## CONSTRUCTION - Continued

Company	Price
...	...

## DISTRIBUTORS

Company	Price
...	...

## DIVERSIFIED INDUSTRIALS

Company	Price
...	...

## ELECTRICITY

Company	Price
...	...

## ELECTRONIC & ELECTRICAL EQUIP

Company	Price
...	...

## ENGINEERING

Company	Price
...	...

## ENGINEERING - Continued

Company	Price
...	...

## ENGINEERING, VEHICLES

Company	Price
...	...

## ENGINEERING, VEHICLES - Continued

Company	Price
...	...

## EXTRACTIVE INDUSTRIES

Company	Price
...	...

## EXTRACTIVE INDUSTRIES - Continued

Company	Price
...	...

## EXTRACTIVE INDUSTRIES - Continued

Company	Price
...	...

## FOOD PRODUCERS

Company	Price
...	...

## GAS DISTRIBUTION

Company	Price
...	...

## HEALTH CARE

Company	Price
...	...

## HOUSEHOLD GOODS & TEXT

Company	Price
...	...

## INSURANCE

Company	Price
...	...

## INSURANCE - Continued

Company	Price
...	...

## INVESTMENT TRUSTS

Company	Price
...	...

## INVESTMENT TRUSTS - Continued

Company	Price
...	...

## INVESTMENT TRUSTS - Continued

Company	Price
...	...

## INVESTMENT TRUSTS - Continued

Company	Price
...	...

## INVESTMENT TRUSTS - Continued

Company	Price
...	...

It pays to push your PEPs around.

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## LONDON STOCK EXCHANGE

## US interest rate fears unsettle equity market

## MARKET REPORT

By Steve Thompson  
UK Stock Market Editor

London, along with most other European markets, suffered from another bout of interest rate jitter yesterday, falling sharply ahead of today's meeting in Washington of the US Federal Reserve's open market committee.

Adding to the market's worries was another twitchy session in Asia, where the continuing problems in Jakarta, riven by riots in recent days, drove Indonesia's mar-

ket down more than 4 per cent and affected Hong Kong, which slipped more than 1 per cent. On the positive side, Tokyo managed a minor improvement.

And Wall Street failed to come to the London market's rescue, with the Dow Jones Industrial Average slipping back again. Some market observers think it likely to fall below the 5,000 mark ahead of the FOMC meeting.

The FTSE 100 lost the 5,900 mark early on and, more worryingly, fell back through the 5,800 level in mid-afternoon when Wall

Street was looking increasingly vulnerable.

But evidence of "cheap" buying interest from some of the big institutions enabled the FTSE 100 to scramble back above 5,800 to finish a difficult session 31.6 off at 5,832.2. At its worst, Footsie posted a 123.3 decline at 5,794.5.

Although uneasy about developments overseas, dealers insisted the London market's undertone remained reasonably sound, pointing to the resilient performance of the FTSE 250 and the latest good showing by the FTSE SmallCap index.

The latter straggled aside the pessimistic stories encompassing the leaders and edged higher to new intra-day and closing records.

"You only have to look at the low turnover in the market today to see that it was more of a mark-down than a sell-off. It is a classic mark-down in front of an important economic event. I wouldn't be surprised to see us get back all and more of today's fall if the Fed leaves rates on hold," said one marketmaker.

He also pointed to the continuing spate of takeover

news, some bullish, some bearish, right across the stock market.

Most areas of the market were enlivened by takeover developments. The front-line stocks included numerous takeover stories, including the revelation that Asda, the supermarkets group, had held "collaboration discussions" with Kingfisher. Asda shares fell back, with specialists increasingly of the view that the group is on the acquisition trail, while Kingfisher made progress.

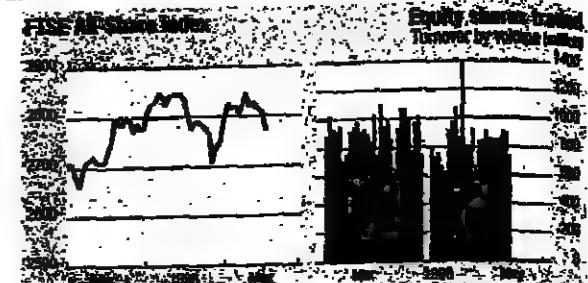
Other bid talk included Halifax and Royal Bank of Scotland, whose shares were

among the best performers in the FTSE 100 after week-end reports that the two banks had held preliminary talks, although both shot down merger reports.

The FTSE 250 finished the day 5.3 easier at 5,792.5, having been down 10.8 at its worst not long into the morning session.

But there was no stopping the FTSE SmallCap which settled 2.3 higher at a record closing level of 2,761.5, after an intra-day peak of 2,752.4.

Turnover in equities was a lowly 777.7m shares, of which around 58 per cent was in non-Footsie stocks.



Index	Close	Change	High	Low	Vol	Open
FTSE 100	5832.2	-31.6	5895.0	5794.5	23850	5900.0
FTSE 250	5792.5	-5.3	5840.0	5740.0	10500	5800.0
FTSE SmallCap	2761.5	+2.3	2752.4	2740.0	5000	2750.0
FTSE All-Share	2775.5	+0.5	2765.0	2760.0	10000	2770.0
FTSE 100 Div. Yield	2.81	-0.01	2.82	2.80		

## FUTURES AND OPTIONS

Index	Open	High	Low	Close	Vol	Open
FTSE 100	5832.2	5895.0	5794.5	5832.2	23850	5900.0
FTSE 250	5792.5	5840.0	5740.0	5792.5	10500	5800.0
FTSE SmallCap	2761.5	2752.4	2740.0	2761.5	5000	2750.0
FTSE All-Share	2775.5	2765.0	2760.0	2775.5	10000	2770.0
FTSE 100 Div. Yield	2.81	2.82	2.80	2.81		

## LONDON RECENT ISSUES: EQUITIES

Index	Open	High	Low	Close	Vol	Open
FTSE 100	5832.2	5895.0	5794.5	5832.2	23850	5900.0
FTSE 250	5792.5	5840.0	5740.0	5792.5	10500	5800.0
FTSE SmallCap	2761.5	2752.4	2740.0	2761.5	5000	2750.0
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FTSE 100 Div. Yield	2.81	2.82	2.80	2.81		

## FTSE GOLD MINES INDEX

Index	Open	High	Low	Close	Vol	Open
FTSE 100	5832.2	5895.0	5794.5	5832.2	23850	5900.0
FTSE 250	5792.5	5840.0	5740.0	5792.5	10500	5800.0
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## Sterling rise hits Glaxo

## COMPANIES REPORT

By Peter John and Martin Brown

Four-month figures from Glaxo Wellcome were broadly in line with broker forecasts, but they still made what one analyst described as "ugly reading" and helped to prompt a fall of 59 to 516.74 in the shares.

Paul Diggie of SG Securities said there was little in the numbers to cause surprise and he was maintaining his full-year estimate of \$2.6bn.

Nevertheless, the 7 per cent sales slide in sterling terms to \$2.55bn was starting to worry some people had been expecting and there had been "a tiny bit of speculative run-off", said Mr Diggie.

However, the rest of the sector was also sold lower as dealers fretted about higher interest rates and the damaging effect of a potentially stronger pound. SmithKline Beecham dropped 26 to 679.4p - 4 per cent - on heavy turnover of 10m shares; Zeneca fell 47 to 504.94.

The reverse was true among the smaller biotech stocks, which responded to strong figures and a positive announcement.

Celtech lifted 6 to 877.4p

after posting interim that reflected a move into profit.

Meanwhile, Cantab Pharmaceuticals gained 20 to 710p in the wake of encouraging results from Phase I clinical trials of its vaccine for the treatment and prevention of genital herpes. The treatment is being developed jointly with Glaxo.

Oil stocks slipped as Brent crude, which had managed to peep briefly above a re-surging \$15 a barrel last week, ducked back down again.

BP, the major most sensitive to oil price shifts, fell 25 to 938p while Shell

Transport dropped 10 to 444.6p.

Among the exploration and production stocks, Enterprise released the long awaited news on its latest developments in the Gulf of Mexico, but failed to excite the market and the shares slid 16 to 589p.

Enterprise said there was a geological hitch which would lead to a four-week delay for data.

Pearson, the media conglomerate that owns the Financial Times, was the best performer in the FTSE 100 as the shares moved to a new peak.

The stock rose 51 to 210.77p after the company announced it would buy Simon & Schuster's education divisions from Viacom of the US for a net \$3.6bn.

Pearson said the acquisition would "significantly enhance adjusted earnings in the first full year" and deliver annual cost savings of \$120m by 2000.

Dresdner Kleinwort Benson was one of the brokers that responded positively to the deal.

Analyst Neil Carter said it was worth "over a pound a share" on a discounted cash-flow basis. Kleinwort's media share has increased its recommendation from "add" to "buy".

Banking shares were in the doghouse with ABN Amro publishing a cautious note following Friday's news that the Office of Fair Trading was investigating Northern Rock's recently restructured savings accounts.

The broker believes that any decision on deposits could have implications for the rest of the banks, particularly mortgage lenders.

Lloyds TSB, which has a big mortgage exposure, fell 27 to 589.4p while Barclays

dropped 49 to 516.74. Northern Rock fell 5 to 548.9p.

However, mortgage leader Halifax bounced 15 to 792p on the back of weekend press stories suggesting talks with Royal Bank of Scotland - up 14 to 985.4p.

British Energy held relatively steady with some support from Maxwell Lynch, which upgraded its long-term stance on the stock from "reduce" to "neutral". The broker believes the dividend will be covered sooner rather than later. The shares dipped 1 to 549p.

Asda talks

News that Asda, the supermarket giant, and Kingfisher, the Woolworth & B&Q DIY group, had held preliminary discussions, described as "collaboration" rather than merger talks, although now terminated, triggered activity in food and retailing.

Asda shares slipped 3 to 180.4p on the news, with some dealers taking the view that the company seems determined to go on the acquisition trail. Kingfisher's

meanwhile edged up 5 to 210.77p.

Colt Telecom was the worst performer in the FTSE 250 as recent bid speculation in the stock started to evaporate following weekend press comment.

The shares lost 18 to 215.02p in small volume, as Dresdner Kleinwort Benson's FTSE 250 team high-

lighted the stock's 44.3 per cent outperformance of the FTSE All-Share last week.

Brewing stocks were a feature in a week that will include a series of results from the sector. Investors should gain a clear picture of the toughening competition.

Wolverhampton & Dudley saw its shares marked down in spite of serving up stronger-than-expected results.

The fall of 9 to 506p was attributed to the brewer saying second-half sales were behind expectations.

The bearish sentiment spread to Scottish & Newcastle, which suffered the biggest fall in the FTSE 100 as the stock declined 40 to 689p, although volume was muted.

Anal. WABH said it was one of the poorer Footsie performers as the shares fell 26 to 610.

Christie International was the best performer in the FTSE 250 as the shares rose 75 to 24 per cent at 387.4p on news of the agreed 36p bid from French group Artemis.

Renkoll Initial achieved one of the best performances in the FTSE 100 as the stock gained 9 to 382p, helped by a broker recommendation.

Compass, the contract catering group, often mooted as a potential bid target for Renkoll, rose 26 to 211.15p ahead of interim due today.

STX Brown has sold clients "Compass's recent entry into the FTSE 100 is proof of the market's belief that the shares warrant a substantial premium to the market. One slip-up would leave the shares looking very expensive."

Lumina, which was listed at 200p two years ago, gained 3p to 86p amid talk that brokers were focusing on the potential of the Chicago Rock Cafes to increase earnings next year.

Media group Lopex rose 6 to 56p following a bullish trading statement.

FTSE Actuaries Share Indices

The UK Series

Trading Volume

## WHERE ARE THIS YEAR'S BEST IDEAS IN BUSINESS?

Find out tomorrow...

Please join the Financial Times and Booz-Allen & Hamilton tomorrow night in New York at the Awards Ceremony for the 1997 Financial Times/Booz-Allen & Hamilton Global Business Book Awards. The independent judging panel will announce the winners of the five first-round categories and proclaim the Best Business Book of 1997.

## Shortlist

Best Book about Business Strategy & Leadership	Best Business 'How-To' Book	Best Business Analysis/ Business Content	Best Current Business Biography/ Autobiography	Best Business Case Study/ Business Plan
<i>Carroll's with Forth</i> by John Elkington	<i>Business Plan for Dummies</i> by Paul Tiffany & Steven D. Peterson	<i>The Business Plan</i> by Martin Mayer	<i>Care A Dream of the American Workplace</i> by Mary Wilson	<i>The Diffusion of Innovation</i> by Everett Rogers
<i>Corporate Creativity</i> by Alan Robinson & Steve Stern	<i>Even More Offensive Marketing</i> by Hugh Davidson	<i>Business Plan for Dummies</i> by Paul Tiffany & Steven D. Peterson	<i>WW Norton</i>	<i>Business Plan for Dummies</i> by Paul Tiffany & Steven D. Peterson
<i>Business Plan for Dummies</i> by Paul Tiffany & Steven D. Peterson	<i>Business Plan for Dummies</i> by Paul Tiffany & Steven D. Peterson	<i>Business Plan for Dummies</i> by Paul Tiffany & Steven D. Peterson	<i>Business Plan for Dummies</i> by Paul Tiffany & Steven D. Peterson	<i>Business Plan for Dummies</i> by Paul Tiffany & Steven D. Peterson

## Special Awards

## THE LEX PRIZE

Awarded by the Financial Times to the best business history published in 1997

*Rich Democrats and Capital's Thin* by Margaret Foster

## THE EDWIN G. BOOZ PRIZE

Awarded by the officers of Booz-Allen & Hamilton for the most innovative, insightful management book published in 1997

*The Living Company* by Aris de Geus

For more information or to attend the ceremony, call Eleanor Scheffer-Mosh at (214) 746-6580 or visit our website at [www.bha.com](http://www.bha.com).

BOOZ-ALLEN &amp; HAMILTON

FINANCIAL TIMES

FTSE INTERNATIONAL



Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE									
Austria (May 18 / Sat)									
ATX	1,482.45	-4.85	1,482.45	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60
ATX	1,482.45	-4.85	1,482.45	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60
Belgium (May 18 / Sat)									
BEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
BEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Denmark (May 18 / Sat)									
OMXC20	1,482.45	-4.85	1,482.45	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60
OMXC20	1,482.45	-4.85	1,482.45	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60
France (May 18 / Sat)									
CAC40	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
CAC40	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Germany (May 18 / Sat)									
DAX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
DAX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Greece (May 18 / Sat)									
ATHEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
ATHEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Ireland (May 18 / Sat)									
ISEQ	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
ISEQ	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Italy (May 18 / Sat)									
FTSEMIB	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
FTSEMIB	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Japan (May 18 / Sat)									
Nikkei	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Nikkei	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Korea (May 18 / Sat)									
KOSPI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
KOSPI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Netherlands (May 18 / Sat)									
AEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
AEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Norway (May 18 / Sat)									
OSEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
OSEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Portugal (May 18 / Sat)									
BVLXPS	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
BVLXPS	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Spain (May 18 / Sat)									
IBEX35	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
IBEX35	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Sweden (May 18 / Sat)									
OMXS30	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
OMXS30	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Switzerland (May 18 / Sat)									
SIX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
SIX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
UK (May 18 / Sat)									
FTSE100	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
FTSE100	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
USA (May 18 / Sat)									
DOW	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
DOW	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Canada (May 18 / Sat)									
TSX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
TSX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Australia (May 18 / Sat)									
ASX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
ASX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
New Zealand (May 18 / Sat)									
NZSE	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
NZSE	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
South Africa (May 18 / Sat)									
JSE	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
JSE	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Hong Kong (May 18 / Sat)									
HSI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
HSI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Singapore (May 18 / Sat)									
SEI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
SEI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Taiwan (May 18 / Sat)									
TSEI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
TSEI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
China (May 18 / Sat)									
SSE	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
SSE	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
India (May 18 / Sat)									
Sensex	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Sensex	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Brazil (May 18 / Sat)									
IBOV	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
IBOV	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Mexico (May 18 / Sat)									
IPC	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
IPC	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Argentina (May 18 / Sat)									
MERV	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
MERV	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Colombia (May 18 / Sat)									
COLCAP	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
COLCAP	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Peru (May 18 / Sat)									
VLSE	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
VLSE	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Chile (May 18 / Sat)									
IPSA	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
IPSA	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Venezuela (May 18 / Sat)									
IVB	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
IVB	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Russia (May 18 / Sat)									
RTS	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
RTS	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00

EUROPE									
Austria (May 18 / Sat)									
ATX	1,482.45	-4.85	1,482.45	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60
ATX	1,482.45	-4.85	1,482.45	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60
Belgium (May 18 / Sat)									
BEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
BEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Denmark (May 18 / Sat)									
OMXC20	1,482.45	-4.85	1,482.45	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60
OMXC20	1,482.45	-4.85	1,482.45	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60	1,477.60
France (May 18 / Sat)									
CAC40	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
CAC40	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Germany (May 18 / Sat)									
DAX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
DAX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Greece (May 18 / Sat)									
ATHEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
ATHEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Ireland (May 18 / Sat)									
ISEQ	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
ISEQ	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Italy (May 18 / Sat)									
FTSEMIB	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
FTSEMIB	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Japan (May 18 / Sat)									
Nikkei	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Nikkei	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Korea (May 18 / Sat)									
KOSPI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
KOSPI	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00	3,440.00
Netherlands (May 18 / Sat)									
AEX	3,450.00	-10.00	3,450.00	3,440.00	3,440.00	3,440.00	3,440.00	3	



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It is important that only trained people perform the work.

## AMEX PRICES

# EASDAQ

EASDAQ is a fully listed "over-the-counter" public listing market based on high growth companies with international opportunities. The absence of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change	Volume	High	Low	Company	Mid price	Change	Volume	High	Low
AcadLink	1358.25		6150	7.25	7.25	Groupo Financial	1151.70	900	3600	6560	1250
Alcatel	111.2000		880	3800	10450	USMARS	75.75	0.75	127912	75.5	9.875
Airpeak Systems	15.00	20170	21285	5870		Image Sens. Syst.®	106.615	0.7	0	125	8.8
Altek	7.75		1455	16.5	9	Int'l. & Pacific	10.25	0.25	1000	10.0	0.00
Bay West Holdings	0.585	-0.435	1400	7.15	6.825	LEST	18.75	0.75	133921	29.3	7.875
Bechtel Holdings	GPST-5	-0.105	3140	7.15	6.825	Macron Int'l.	153.1125	-0.125	0	12.675	8
BellSouth	7.50		5680	16.5	9	MSFT	105.75	0.75	1000	100.0	0.00
Biopac Tech	1535.5615	-0.0625	0	9.125	5.925	Option Int'l.	15.625	0.25	24675	66.25	10.375
ESAT Telecom	18534		37	18.75	13.25	ParTech	1036.875	0.625	7400	7400	2.125
Global Tele. Int'l.	1990		1475	16.5	9.875	SPRINT	14.625	0.375	1100	11.0	0.00
Global Telcel	1537.1375	-0.425	0	12.5	4.875	Spectra Electronics	101.75	0.5	0	1790	900
Global Teleports	0.3525	3.125	28204	49.25	4.5	Stellar Inc.	5015.550	-200	1730	1640	385
Global Telecom	0.25		1475	16.5	9	TELECOM	10.00	0.00	1000	10.0	2.0

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# STOCK MARKETS

## Russia suffers in international fit of nerves

### WORLD OVERVIEW

Russia was the prime casualty on stock markets yesterday as investors continued to be nervous about high-risk markets in the light of the recent Asian crisis, writes Philip Cogan.

The RTS index fell 11.8 per cent on the day, with trading suspended at one point, amid fears that the rouble might be devalued. The Russian market fell almost 15 per cent last week.

Markets worldwide had a number of negative factors to overcome with the continuing Indonesian crisis, the antitrust case against Microsoft and today's meeting of the US Federal Reserve's open market committee.

Most analysts expect the Fed to leave rates where they are, but press speculation about a move towards a "bias to tighten" has fuelled uncertainty. And some economists remain convinced

that inflation is a threat in the US, in spite of the recent benign data.

"If this were an episode of *Lost in Space*, the robot would be saying 'Danger, Will Robinson, Danger,'" said the team at Nikko Europe.

The Indonesia stock market continued to take a pounding, although trading was light given the recent chaos in Jakarta. The rest of Asia was mixed; Indonesia's neighbours Malaysia and

Singapore were sharply lower, but there was a modest rally in Japan.

Europe struggled to make progress in the face of Asian and US developments and most of the leading markets were 1-1.5 per cent lower.

Earnings growth across the globe over the next 12 months is expected to be a healthy 22 per cent. In spite of that robust forecast, the world's forward price-earnings ratio is 21.8, the highest recorded since IBES started collecting data

outside North America in 1987.

In the US, analysts have cut their earnings expectations for the third month in a row, with the stock market staying robust, the forward P/E ratio reached a new post-second world war high of 22.1. IBES adds that the gap between the 12-month forward P/E and the inverse of the 10-year US government bond yield is only exceeded by the overvaluation in the summer of 1987.

Shares prices have fallen more than 11 per cent since last Monday's nuclear tests by India resulted in heightened tension across south Asia.

Many analysts say the immediate concern is that foreign investors will pull out of the market at the first sign of US sanctions. As with India, the US administration is bound by law to block IMF loans to any country that tests a bomb.

To some extent, the market's weakness is a consequence of widespread pessimism over the government's handling of the country's Independent Power Projects.

Nawaz Sharif, the prime minister, has ordered investigations into the financial affairs of the IPPs.

Businessmen say the campaign is meant to harass the private power companies, forcing them to cut what the government says are exorbitant tariffs.

In the past week, however, analysts say that anxieties over the IPP issue have subsided, but the respite will be only temporary at best. Once the anxieties over the nuclear issue subside, many analysts expect the IPPs to re-emerge.

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### EMERGING MARKET FOCUS

## Karachi awaits bomb decision

Pakistan's sliding stock market continued on its downward path yesterday, on worries over the outlook for the economy if a decision to go ahead with a nuclear test brought US-backed sanctions. The KSE-100 index dropped another 51.83 or 3.63 per cent to 1,374.33.

Share prices have fallen more than 11 per cent since last Monday's nuclear tests by India resulted in heightened tension across south Asia.

Many analysts say the immediate concern is that foreign investors will pull out of the market at the first sign of US sanctions. As with India, the US administration is bound by law to block IMF loans to any country that tests a bomb.

To some extent, the market's weakness is a consequence of widespread pessimism over the government's handling of the country's Independent Power Projects.

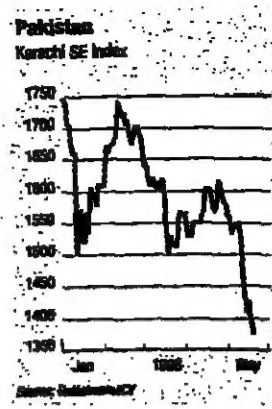
Nawaz Sharif, the prime minister, has ordered investigations into the financial affairs of the IPPs.

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Yesterday's falls were widely seen to have been triggered by a weekend statement from Gauhhar Ayub Khan, the foreign min-



ister, who was quoted as saying it was not a question of "if" but "when" Pakistan detonated a nuclear device. "Gauhhar Ayub's statement has hurt the sentiment immediately," said Ali Jamil, senior analyst at Karachi's Jahangir Siddiqui brokerage. "The market is directionless and will remain so until this situation becomes clear."

Businessmen have increasingly urged the government not to respond in kind to India, cautioning that the impact on the economy of US sanctions would be harsh. Pakistan's foreign exchange reserves of \$1bn, compared with India's \$30bn, are said to be in no shape to deal with a flight of capital such as withdrawals from foreign currency accounts at local banks.

There are deposits of almost \$10bn in these accounts, far in excess of the government's capacity to make repayments. Almost half the deposits are understood to be held in collateral against rupee loans, many of which do not mature for another year.

But even the remaining \$5bn could become an unbearable liability. Analysts say the government may consider imposing emergency measures, such as a freeze on the bank deposits, to prevent a run.

Farhan Bokhari

## Dow dips on interest rate uncertainty

### AMERICAS

US shares fell ahead of today's Federal open market committee meeting on interest rate policy, writes John Labate in New York.

Also weighed down by a series of negative domestic and international factors, the Dow Jones Industrial Average was off 38.61 at 9,057.39 by early afternoon. The Standard & Poor's 500 index fell 3.88 to 1,104.85, and the Nasdaq composite was 13.97 lower at 1,833.50.

Although opinions have shifted in recent months, with a growing number of analysts expecting the Federal Reserve to raise interest rates in the near term, many expect the Fed will stay its hand at today's meeting.

Amid uncertainties in Asia and before the announcement of a widely expected lawsuit by regulators against Microsoft, the market drifted down, but trading was said to be directionless.

"The biggest factor is that the market's been in a correction consolidation for almost three weeks," said Alfred Goldman, chief market strategist at A.G. Edwards in St Louis.

Microsoft tumbled \$3 1/2 to \$36 ahead of a planned press conference by the software producer. The rest of the computer-related sectors were more mixed. IBM rose 1/4 to \$125 1/4, while Dell Computer advanced \$2 1/2 to \$92 1/2.

Cisco Systems was \$1 1/2 higher at \$77 1/2 but the Pacific Stock Exchange's technology index was down 1.00 to 350.01.

Hewlett-Packard continued to pull back, down \$2 1/2 to \$67. HP led the Dow lower, but other shares were weaker as well, especially stocks among cyclical sectors. Aluminum Company of America lost \$1 1/2 to \$73 1/2 and Union Carbide \$1 to \$53 1/2.

US Treasuries pushed higher, sending the benchmark 30-year bond up 1/8 to 102 1/2 and the yield down to 5.929 per cent.

In the banking sector, Citicorp climbed \$1 1/4 to \$154 1/4 after an earnings report from the group's Malaysian unit. In the health sector, producers of cancer-fighting drugs reaped huge gains. Entremed rose 4 1/2 to 13.6 per cent to \$37 1/2, while Genentech gained \$2 1/2 to \$72 1/2.

## Alitalia finds lift in spite of Milan's falls

### EUROPE

Early weakness on Wall Street and continuing tensions in Asia contributed to a weak performance in MILAN, where the index was also weighed down after 80 stocks went ex-dividend.

The real-time Mibtel index fell 825 or 3.4 per cent to 23,153 with shares trading ex-dividend accounting for about 130 points of the fall.

Alitalia ended L432 or 7.1 per cent higher at L6,474 after being suspended for excessive gains three times on the first day of the airline's capital increase.

Banca di Roma lost L175 to L3,574 and BCI was marked L508 down at L9,677. On Friday the two banks had denied they planned to merge. Weakness was seen elsewhere among banks with Banca Intesa L557 lower at L9,998 and Mediobanca L1,069 lower at L33,324.

Generali was lower, but still outperformed the market after Morgan Stanley rated the stock a strong buy. The shares eased L33 to L63,809.

PARIS wobbled lower with the CAC 40 index losing 44.92 to 3,945.31 after a renewed outbreak of Asian worries caught up with the heavyweight banking sector. BNP retreated FF16.50 to FF498.60, CCF gave up FF17.80 to FF172.33 and Société Générale came off FF33 at FF1,166, although combined turnover in the three shares was fairly modest at less than FF900m.

Suez Lyonnaise des Eaux, off FF146 at FF1,014, also had to contend with the news that it planned to bid for the outstanding 37 per cent of Société Générale de Belgique.

Canal Plus lost FF28 at FF1,165 after earnings downgrades for this year and next at JP Morgan.

Carrefour shrugged off recent weakness, adding FF45 at FF3,445. Saint Gobain improved FF21 to FF1,077 as investors warmed to Friday's news of plans to unravel cross-shareholdings with Générale des Eaux.

FRANKFURT gave ground, with investors pre-occupied ahead of today's Federal Reserve open market committee meeting in the US and earnings figures due from four Dax companies. The Xetra Dax index lost 70.66 to 5,343.66.

BMW stood out among the carmakers with a fall of DM65.50 to DM1,941.50 amid unconfirmed reports the group planned to introduce its new luxury limousine.

BASF, among companies reporting first-quarter results today, picked up 50 pf to DM80.70, while Bayer gave up 62 pf to DM80.38 and Hoechst edged 20 pf higher to DM80.18. Traders said that after

gave up SF8.50 to SF122.3, Alusuisse fell SF143 to SF1,961 as the company declined to comment on the disclosure that Martin Ebnner's BZ Group had raised its stake in the company to 11 per cent.

Against the trend, Clariant, which last week forecast double-digit growth in operating profit, rose SF733 to SF1,761. Dealers also cited rumours that a major Swiss bank was going to issue warrants on the stock.

MADRID saw Endesa rise Ptas40 to Ptas3,550 as the countdown to next month's privatisation offer started in earnest. Yesterday was the first day for non-binding orders and the shares ended Ptas40 higher at Ptas3,550. The general index closed 2.03 lower at 855.71.

AMSTERDAM met with stiff selling, notably among international. The AEX index ended off 17.30 at 1,151.57.

Fortis Amey lost F14.50 at F120.40 as the bid for Generale Bank of Belgium finally went ahead. Philips fell F16 to F119.70 on weakness for US tech shares, and Heineken shed F12.90 to F171.

KLM was a firm feature, adding 50 cents to F176.60 ahead of tomorrow's results statement. Wolters Kluwer gained ground, too, rising F13.80 to F1361.90 on news that the purchase of Waverly of the US had been finalised.

DSM showed resilience, easing a bare 10 cents to F1306.30 after an upgrade to market performer by Goldman Sachs.

ZURICH extended early losses to close 2 per cent lower as interest rate jitters returned ahead of today's US FOMC meeting.

The SMI index closed 148.0 lower at 3,371.4 with financial shares posting sharp losses on worries that US interest rates could be heading higher. UBS lost SF66 to SF12,505 and its merger partner, SBC, was marked SF12 lower to SF1540. CS Group

global telecoms group WorldPartners.

The All Ordinaries index came off 32.5 to 2,733.3.

SINGAPORE fell on continued gloom over the Straits Times index gave up 30.29 at 1,291.74. Turnover was thin and losers outpaced gainers eight to one.

Singapore Telecom was the most active stock, shedding 60 cents to S\$2.41.

BANGKOK fell 12.22 to 357.21 on the SET index after a torrid session for the finance sector, which tumbled 12.7 per cent. Dhana Siam Finance fell Bt2.40 to Bt5.90.

HONG KONG was unmoved by lingering concerns about the situation in Indonesia and ahead of local unemployment figures due after the market closed.

The Hang Seng index fell 126.42 to 9,411.97 after hitting a low of 9,368.43. Turnover shrank to a quiet HK\$4.9bn.

The heavily traded HSBC Holdings which accounted for nearly 25 per cent of total turnover and was responsible for 71.70 of the index's loss, dropped HK\$5.50 to HK\$97.50 on concerns over the group's exposure to Indonesia.

KUALA LUMPUR was marked down, tracking a weak ringgit, and the composite index finished 16.86 lower at 540.90.

Tokyo's benchmark Nik-

kei 225 average flirted with the 15,000 level before closing up nearly 1 per cent on the day, writes Paul Abrahams.

The index traded between 15,089.68 and 15,405.00 to close up 141.61 or 0.9 per cent at 15,384.7.

The recovery was not broadly based, however. The Topix index of all first-section shares rose only 2.24 or 0.19 per cent to 1,209.17. Volume was dull at just 320m shares. The momentum was down, with 554 stocks lower, 508 up and 188 unchanged.

Analysts said the market was supported by buying from public funds and some positive corporate news, including possible share buy-backs and a few unexpectedly good profits forecasts for the current year.

Companies announcing their intention to change their articles of association so they can buy back shares include Kaneka, a resin maker, Yamato Transport, and Intec, a computer service supplier. Their shares rose 3.7 per cent to ¥888.1 per cent to ¥1,581, and 8.5 per cent to ¥1,080.

Nikon, the electronics group, dropped 5 per cent after revealing a 50 per cent fall in net profits and the forecast of a further 75 per cent decline this year. The stock closed at ¥1,007.

## São Paulo falls sharply

Latin American centres were laid low in early trading by worries about Asia and a possible rise for US interest rates.

SÃO PAULO supplied the biggest shocks, racking up a decline of 403 or 3.7 per cent to 10,503 on the Bovespa index by midsession.

Blue chips led the shake-out. Telebras lost 4.3 per cent at R\$127.80 and Petrobras 4.1 per cent to R\$244. Mining giant Vale do Rio Doce came off 6.6 per cent to R\$24.10.

MEXICO CITY moved steadily lower in what dealers described as thin dealing volumes. "Concern about the trend of US rates, plus the shake-out in Brazil, is what is unsettling us today," said one broker. Telmex gave up 65 centavos to 21.65 pesos.

At midsession, the IPC index was off 76.75 or 1.6 per cent at 4,709.43.

CARACAS also ran into heavy selling. The IBC index was 163.53 or 2.4 per cent lower at 6,753.75 at midsession.

## Johannesburg edges higher

### SOUTH AFRICA

Shares in Johannesburg were little changed as the rand moved lower on the foreign exchanges and hopes for a cut in local interest rates faded. The all-share

index closed 25.3 higher at 3,079.4. Industrials added 9.5 to 9,812.3 while golds edged 5.1 lower to 1,036.7.

Africa Life Assurance jumped 10 per cent to R81 ahead of an eagerly awaited results statement.

## Resignation call cuts losses

### ASIA PACIFIC

News that the parliamentary speaker had called on President Suharto to resign enabled JAKARTA to trim its losses late in the session, although the market still closed -1.2 per cent down.

Analysts commented that the market would have recovered more strongly had the announcement come earlier in the day.

The composite index closed 17.02 lower at 389.92, up from a low of 384.10. Shares in companies controlled by the Suharto family remained under pressure.

Astra, the car group, lost Rp150 to Rp900 on speculation that Bob Hasan, chairman of Nusamba, Astra's main shareholder, could lose his place in the cabinet in a reshuffle.

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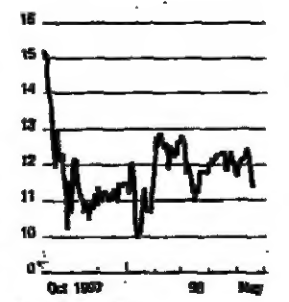
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Tokyo's benchmark Nik-

### Coca-Cola Amatil

Share price (¥)



Takeda, the drugs group, fell ¥90 to ¥3,570 after it revealed it was withdrawing Avan, a treatment for Alzheimer's disease. The move follows concerns by the health and welfare ministry about Avan's effectiveness.

Nissan Diesel, the object of speculation that it might be taken over by Daimler-Benz of Germany, fell ¥15 to ¥285 in heavy trading.

SYDNEY moved steeply lower in weak volume. Coca-Cola Amatil, which has a big Indonesian business base, fell 53 cents or 4.4 per cent to A\$11.40. ANZ Bank lost 28 cents to A\$10.60.

Telstra rose 8 cents to A\$3.85 for a two-day advance of 5.5 per cent on press reports that the company was set to take a stake in

global telecoms group WorldPartners.

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Tokyo's benchmark Nik-

AEGON N.V., registered in The Hague, The Netherlands

### FINAL DIVIDEND 1997 AND STOCK SPLIT 2:1

#### Final Dividend 1997

At the Annual General Meeting of Shareholders held on 14 May, 1998, the dividend for the fiscal year 1997 was fixed at NLG 3.71 per common share of NLG 1.00 par value. After the deduction of the interim dividend of NLG 1.40 already paid, the final dividend amounts to NLG 2.31 per common share of NLG 1.00 par value.

The time schedule as published on 19 March, 1998 for the final dividend 1997 is as follows:

15 May through 22 May, 1998	Election period.
2 June, 1998	Publication of the determined dividend in shares.
5 June, 1998	Payment of dividend and delivery of new common shares.

#### Stock Split 2:1

At the above-mentioned Annual General Meeting of Shareholders, it was resolved to amend the Articles of Incorporation of AEGON N.V. so that each common share of NLG 1.00 par value will be split into two common shares of NLG 0.50 par value each.

Application will be made to the Amsterdam and London Stock Exchanges to list the issued share capital in its new form. Dealings in the shares with the new par value of NLG 0.50 will commence on 25 May, 1998.

In connection with this stock split, shareholders, who want their shares either stamped or converted into new shares, may hand their shares over to N.V. Nederlandsch Administratie- en Trustkantoor (NEDAM-Trust), Herengracht 420, 1017 BZ Amsterdam, The Netherlands; Postal address: P.O. Box 11063, 1001 GB Amsterdam, The Netherlands (CF connection: 3,252), as from 25 May 1998.

Conversion of the common shares of holders of CF-certificates will be handled through those institutions acting as custodians for their shares. The common shares will be available as K-certificates in denominations of 1, 2, 20, 200, 2,000 shares of NLG 0.50 par value to which dividend coupon 13 et seq. are attached or as CF-certificates, which will be available in denominations of 1, 2, 20, 200, 2,000 and 200,000 shares of NLG 0.50 par value.

Members of the Amsterdam Stock Exchange will receive a commission until 31 July, 1998 in order to effect the conversion free of charge for the shareholders until that date.

#### The Executive Board

The Hague, 15 May, 1998  
50 Mariahoeveplein

**AEGON**  
Insurance Group